

103
PRODUCER-FUNDED LIVESTOCK RESEARCH AND
PROMOTION PROGRAMS

Y 4. AG 8/1:103-2

Producer-Funded Livestock Research...

HEARING
BEFORE THE
SUBCOMMITTEE ON LIVESTOCK
OF THE
COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS

FIRST SESSION

FEBRUARY 24, 1993

Serial No. 103-2



Printed for the use of the Committee on Agriculture

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PRODUCER-FUNDED LIVESTOCK RESEARCH AND PROMOTION PROGRAMS

WEDNESDAY, FEBRUARY 24, 1993

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON LIVESTOCK,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room 1300, Longworth House Office Building, Hon. Harold L. Volkmer (chairman of the subcommittee) presiding.

Present: Representatives Hilliard, Stenholm, Holden, Long, Peterson, Dooley, Gunderson, Lewis, Smith, Goodlatte, and Pombo.

Also present: Representative E (Kika) de la Garza, chairman of the committee.

Staff present: John E. Hogan, minority counsel; Dale Moore, minority legislative coordinator; Glenda L. Temple and Jan Rovecamp, clerks; Timothy P. De Coster, Dan McGrath, Perri D'Armond, and John Riley.

OPENING STATEMENT OF HON. HAROLD L. VOLKMER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. VOLKMER. The subcommittee will come to order.

The Subcommittee on Livestock is meeting today to review producer-funded livestock research and promotion programs.

This is our first meeting of the 103d Congress. It is an honor for me to have been selected by the Agriculture Committee to serve as chairman of the Livestock Subcommittee, and I look forward to a productive session. I note that in the interest of a new, streamlined organization, we have trimmed our title down to just the Livestock Subcommittee, although our interests in dairy, poultry, and all other aspects of livestock production and management remain unchanged.

The four research and promotion programs, or check-offs as they are widely known, that we will focus on today are dairy, eggs, beef, and pork. Producers fund these programs directly from the payments they receive for marketing their animals and products, and the check-offs are carried out without direct Government funding. All of the programs have been authorized by law and approved by producer referenda.

All totaled, these four check-offs raise more than \$300 million annually for producers or about two-thirds of the funds coming from the dairy sector. The programs are designed to improve conditions for our producers by improving both the demand for and the quality of the products.

A check-off represents a significant investment by producers, and our purpose in conducting this hearing is to find out how well the programs are operating. We will use this information in assessing whether any changes are needed as we approach the 1995 farm bill.

We appreciate the participation of our many witnesses today and look forward to an informative discussion.

Our first panel today is Dr. Kenneth C. Clayton, Acting Assistant Secretary for Marketing, Inspection, and Service, U.S. Department of Agriculture. He is accompanied by Mr. Will Blanchard, Director, Agricultural Marketing Service, Dairy Division; Mr. Paul Fuller, Director, AMS Livestock and Seed Division, and Michael Holbrook, Director, AMS Poultry Division.

Dr. Clayton, your statement will be made a part of the record. You may either summarize that statement or review it in full, however you so desire. You may begin.

Welcome. You are our first witness for this Congress. I appreciate your being here.

STATEMENT OF KENNETH C. CLAYTON, ACTING ASSISTANT SECRETARY, MARKETING AND INSPECTION SERVICES, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY WILL BLANCHARD, DIRECTOR, DAIRY DIVISION, PAUL FULLER, DIRECTOR, LIVESTOCK AND SEED DIVISION, AND MICHAEL HOLBROOK, DIRECTOR, POULTRY DIVISION, AGRICULTURAL MARKETING SERVICE

Mr. CLAYTON. I take that as a high honor, Mr. Chairman, and I thank you very much for the opportunity to meet with you and members of the subcommittee this morning.

We appreciate this opportunity to appear before the subcommittee to discuss the Department's oversight of commodity research and promotion programs for dairy, beef, pork, and eggs. As you have noted, I am accompanied this morning by Will Blanchard, Director of the Dairy Division, Paul Fuller, Director of our Livestock and Seed Division, and Michael Holbrook, Director of our Poultry Division in the Agricultural Marketing Service.

My remarks this morning will be somewhat abbreviated so I appreciate your statement that I will be able to include my full written testimony in the record.

My testimony this morning will focus on the scope of commodity research and promotion efforts at the Federal and State levels, the evolving changes that have occurred in these types of programs during the last decade, and the Agricultural Marketing Service's role in providing oversight in the administration of the various commodity research and promotion programs. Exhibits I through IV, which are attached to my full testimony, provide, by program, for dairy, beef, pork, and eggs, a summary of the statutory provisions, implementation history, expenditures for fiscal years 1988 through 1992, enforcement actions, and major issues which are currently pending before the respective commodity boards of the Department.

Mr. Chairman, there are today more than 350 Federal and State legislative promotional programs covering over 80 farm commodities. Some 90 percent of all U.S. producers contribute money to

such farm commodity promotion and market development efforts. These are industry self-help initiatives. Collectively, they are generating in excess of \$500 million annually to help U.S. producers improve their competitive positions both at home and in world markets.

At the Federal level, there are 14 programs currently authorized, some of which are still being implemented. About 80 percent of the total funds generated for commodity check-off programs, as they are commonly referred to, are collected pursuant to these 14 federally sanctioned programs.

The dairy program, as you noted, is by far the largest with total collections approaching \$217 million in 1992, followed by beef which had collections this past year of almost \$79 million, and pork with \$38 million. The egg program generated almost \$8 million.

Commodity promotion at the State level dates back to over a half century ago when the Florida State Legislature approved legislation for citrus promotion. At the Federal level, involvement in research and promotion programs began in the mid-1950's with the passage of the National Wool Act. However, it was not until the mid-1960's that the current generation of these programs took form.

Beginning with the Cotton Research and Promotion Act of 1966, freestanding commodity-specific legislation has been developed that fits the needs of each industry. Research and promotion authorities were enacted for the potato and egg industries in the early 1970's. Congress added dairy in 1983 and honey in 1984. Beef, pork, and watermelon were enacted as a part of the 1985 farm bill. The 1990 farm bill included authority for another five programs, namely mushrooms, limes, pecans, soybeans, and fluid milk, some of which are still being implemented.

These national programs, when fully implemented, are expected to generate in excess of \$400 million annually to fund research, promotion, and information activities. This will represent almost a ten-fold increase over the past decade in funds that producers are providing for these national self-help programs.

During this 10-year period, we have seen many changes come about as these programs have evolved. For example, prior to 1983 most commodity research and promotion programs had compulsory up-front referenda which required approval by a two-thirds majority of those affected. Producers were entitled to refunds on demand.

Beginning in the mid-1980's, however, with enactment of the dairy, beef, and pork programs, certain features were modified or eliminated. Among these were the elimination of the refund provision, implementation by a delayed referendum, and changing the required two-thirds vote to a simple majority for approval.

The dairy program was the first to be implemented with a delayed referendum. The referendum was conducted in August 1985, well over a year after a staff and an active national advertising program were in place. The dairy statute was also the first not to include a refund provision. The 1985 farm bill contained authorities for both beef and pork which emulated the delayed referendum procedure established in the dairy program.

The majority vote provision was made part of the legislation governing the dairy and pork programs. And as you know, other pro-

grams have subsequently moved in this same direction. The egg program has subsequently followed in the footsteps of the dairy, beef, and pork programs with no refund and delayed referendum provisions being added to its authorizing legislation.

The beef and pork programs, unlike the programs for dairy and eggs, also contain authority to assess imports. As you are aware, Mr. Chairman, the authority to assess imports is another feature that has been added to several of the more recent programs.

A variety of challenges have arisen in implementing these programs, thus affecting AMS's oversight role and policies. A couple of areas I would highlight for the subcommittee this morning are issues surrounding comparative advertising and relationships between commodity boards and trade associations. In the area of comparative advertising, we have discouraged comparisons between commodities and unwarranted claims against competing products are prohibited.

An area of increasing concern for AMS as the numbers of these types of programs have continued to grow is the relationship which has evolved between some of the commodity boards and trade associations. Commodity boards are prohibited by statute from using funds collected to influence governmental policy or action, except in recommending amendments to the order.

Congress itself has long expressed its intent in maintaining the integrity of the use of assessment funds and limiting the use of such funds to those purposes for which the acts are intended. To allow the use of assessments for activities that are clearly outside the scope of the authorizing legislation would represent both a misuse and abuse of such funds.

We have insisted on strict safeguards and good accounting procedures to ensure full accountability on the use of check-off funds by any trade or producer organizations which are funded wholly or in part by a particular board or who may happen to be contractors to one of the boards. We certainly urge this subcommittee to provide its continuing support to these principles to help assure the integrity of these programs.

Next I would like to turn to the issue of legislative guidelines for commodity research and promotion programs.

While provisions of existing commodity research and promotion programs vary considerably from one industry to another, it remains the Department's position that when research, promotion, and education programs are enacted by Congress, the long-term interests of the industry and the general public are best served when such legislation contains the following features.

The program must be national in scope and implemented through either an up-front referendum or by a delayed referendum with refunds or an escrow account.

The program must provide for appointment by the Secretary of board members with equitable treatment for imports and importer representation on the boards where applicable.

It must also include a prohibition on the use of assessment funds for false or misleading advertising as well as a prohibition on the use of assessment funds to influence legislation or governmental policy or action.

Provision must also be made for direct enforcement authority by the Secretary with full reimbursement to the Department for its costs and authority for the Secretary to suspend or terminate a program if necessary.

I would now like to move on to the matter of departmental oversight of commodity, promotion, and research activities. The Department's oversight role is to assure that these programs are administered by the boards in accordance with the authorizing legislation and order. We approve budgets, work plans, projects, and contracts of the boards and are in regular attendance at all meetings of the boards and the committees.

For the submission of proposed programs and budgets, we seek information as to the objectives and strategy in each major program area, such as research or advertising, including reasons for significant changes from the preceding budget period, anticipated revenues, as well as refunds where appropriate, proposed expenditures by major program areas, and the staff and administrative expense breakdown. We monitor the board's financial status through the submission of financial statements by accounting period which reflect expenditures for that period, year-to-date expenditures, and unexpended funds.

At a more operational level, there are five types of USDA oversight that I would highlight to you. The Department's Office of General Counsel provides all legal counsel to the boards except as may be provided in certain limited situations under a memorandum of understanding between the board and our general counsel.

We oversee the investments of the respective boards to assure that any investments made are of a risk-free, short-term nature, in interest-bearing accounts, and that assessment funds are not commingled with other funds. We also review the annual financial audits of each of the programs to assure adherence to departmental guidelines and internal controls established by the respective boards.

With respect to bylaws and any policy statements governing the respective boards, they must be approved by USDA to ensure adequate coverage of responsibilities, meeting procedures, and related activities.

In the area of compliance, the respective boards are responsible for promptly identifying violations and violators and securing compliance wherever possible. In those instances where a board is unable to achieve compliance, the case is referred to the appropriate program division at USDA's Agricultural Marketing Service. When all efforts are exhausted at the agency level, the case is referred to the Office of General Counsel for appropriate action.

Mr. Chairman, through these types of efforts and ongoing communication with the boards, the Department seeks to meet its oversight responsibilities for the various commodity research and promotion programs. Our objective is to ensure maximum accountability and integrity in the use of funds collected by the various boards. I believe that in exercising our oversight responsibilities we have developed excellent working relationships with the various boards and staffs that run these programs.

Mr. Chairman, this concludes my statement. My associates and I would be pleased to respond to any questions which you or the subcommittee may have.

Thank you.

[The prepared statement of Mr. Clayton appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you very much.

We will begin as the members appeared.

Mr. Hilliard, do you have any questions?

Mr. HILLIARD. None.

Mr. VOLKMER. The gentleman from Wisconsin.

Mr. GUNDERSON. I welcome all of you here this morning. I want to clarify that all of you are civil service officials so none of you are political appointees in a policymaking role. Is that correct?

Mr. CLAYTON. That is correct.

Mr. GUNDERSON. I appreciate you coming up here and filling in in that regard.

You indicate that you review the budgets and plans in an oversight capacity. Can you give me any indication as to the last time you modified, rejected, or commented negatively on a budget or plan?

Mr. CLAYTON. Mr. Chairman, I am going to see if my colleagues can help me on specific examples. I can assure you that as we go through the regular process there is a bit of give and take that sometimes occurs between the Department and the various boards. Certainly there are times when we will seek clarification. And that is an ongoing process.

Let me see if we have a specific example to provide to you.

Mr. FULLER. We deal with the boards on almost a daily basis, Mr. Gunderson. So the budgets or the plans that come to us we frequently will discuss with the board. We will also frequently discuss with the board issues that may be raised in our minds about the use of the funds. I think in almost all cases we get these settled before the budgets are made final. So it isn't something where they come to us and we reject something as much as trying to work out the differences ahead of time.

Mr. GUNDERSON. You can't give me any indication of any budget where there has been any discussion on a negative basis between what the board wanted to do and what you felt they should be doing in terms of a proper USDA oversight role?

Mr. FULLER. I can give you one example that just happened last week. We looked at some ads that the Pork Board was planning to use. We made some suggestions to those ads, they made the modification that we asked, and we approved the ads. That is one example.

Mr. CLAYTON. I might add, Mr. Gunderson, that we don't seem to be coming up with a lot of specific examples for you. I hope that is actually a good sign.

Mr. GUNDERSON. Well, it isn't with all the controversy in some of these boards. We don't have a full room here today because everybody is here to endorse business as usual in the promotion programs. I am very concerned, quite frankly, about how USDA defines the concept of oversight because I don't think there is any. I think we have to look at that.

Let me ask a second question. Is there any specific legislative recommendations regarding promotion boards that USDA would make?

Mr. CLAYTON. I'm not aware of any specific recommendations that we have under consideration right now, no.

Mr. GUNDERSON. It is fascinating. You say that and I think it represents the problem. I am not picking on any of you and that is why I asked the first question regarding your specific roles. But absolutely every dairy organization that is going to testify this morning has specific recommendations for change. It is no secret that there is a major effort to dump the Dairy Board. Yet you come forth and say that you don't anticipate any legislative changes or recommendations for change. You have made no negative decisions or any monitoring regarding the actions of the Dairy Board.

You can't tell me that you're an oversight board and tell me that business as usual is just fine when the new Secretary is going to be faced—as the previous Secretary was—with the question of whether we ought to hold a referendum to scrap the dairy promotion program. There is no question that there is a major inconsistency, for example, between the ability of the Beef Council to assess imports, something that dairy doesn't have.

Consistently, I would think you would recommend that either we do assess imports or we don't. We can't do it for one commodity and not for the other. There is a real concern about interaction between Federal promotion programs and State and local promotions where all the bulk of the money is, and yet you don't recommend any programs or steps for coordination.

We have had, as you have seen, not once but more than once, GAO and Inspector General studies and recommendations. Some of those apparently are only at the present time being implemented. Part of the reason we have that is because I don't think USDA is doing anything.

Maybe you shouldn't. That is a legitimate policy issue. But I think you ought to come and tell us, then, that you don't see the role of USDA as one of interfering in any way, shape, or form with either the collection or the decisions or the implementation of those decisions regarding a promotion program.

Again, Dr. Clayton, I am not picking on you. I am not picking on any of you because probably these are only recommendations you can make to the Secretary. It is certainly too soon to ask Secretary Espy to have that decision. But I would hope we would get more from USDA. Either get in and get involved, or get out. I think you have to do one or the other here.

Do you agree with that?

Mr. CLAYTON. I would like to respond to a few of the points you have raised, Mr. Gunderson.

Mr. GUNDERSON. Sure.

Mr. CLAYTON. First, I think the issue of whether or not any of these programs ought to continue or not continue is an industry decision. It is not a decision that USDA should make. These programs were created at the behest of industry with the belief that they would help industry in the marketing of their products. I don't view it as USDA's role to make a decision on whether these programs should continue or not.

Second, I think in terms of defining our overview role, as we perceive it at least, it is one to ensure that various boards operate within the bounds of the statute which Congress has passed in each case to authorize these programs. It is not our role to get in and micromanage and say whether one research project should be funded over another, whether more money should be spent on research or less money should be spent on advertising.

Our view is, again, that we have industry boards that are in place to make these decisions. Our role, fundamentally, is to ensure that any activities undertaken stay within the bounds of the statute which created these programs to ensure that there is no fraud or abuse in the use of the funds. Fundamentally, those kinds of responsibilities we take very seriously. So I do think we exercise a high degree of oversight.

Some of the questions you raised, though, are questions which are bigger than the Department. Those are questions that the industry has to resolve in terms of some of the particulars of these programs, including whether they continue to exist or not.

Mr. VOLKMER. Without objection, the gentleman from Wisconsin is recognized for an additional 5 minutes.

Mr. GUNDERSON. So you see the role of USDA in oversight as purely a compliance role with Federal law and not a programmatic role in any way, shape, or form?

Mr. CLAYTON. I think that is essentially correct, yes. Why would we have boards created under the statutes to administer these programs if that weren't the case?

Mr. GUNDERSON. Well, because it is a quasi-governmental organization, obviously. The Government collects the money, the Government gives them the money. There is a real concern, certainly, about the success or lack of success in certain promotion programs.

Has the Department undertaken any kind of review to determine whether or not the promotion programs, as presently authorized by statute and implemented by the boards, are successful? My constituents and the constituents of every member of this committee are constantly asking us whether or not these boards should continue and what we think about that. They are not sure they're getting their money's worth, quite frankly.

To what degree has USDA done any kind of review of the results of the various promotion boards?

Mr. CLAYTON. You raise a very interesting question. Obviously, that is the bottom line: Are these programs working? After all, we are talking about close to \$500 million that comes out of farmers' pockets to fund these programs. So that is the question of the hour. There is no question about that.

In terms of evaluating the programs, certainly in the case of the dairy program we are required by statute to conduct an annual review of that program. I assume that you have seen some of those annual reports where there has been an attempt to identify what kinds of financial impact the various dairy programs have had.

In the case of dairy, it is a somewhat more difficult issue to measure, I should say, because in fact there is the dairy price support program out there which tends to confound the analysis. There are, though, a number of very good analysts who are working right now on that question to try to take back to the farmer level exactly

what the dairy program means. I am quite certain that the Dairy Board itself supports that kind of work because it is the same question they face in administering their program.

Also, at the Department we cooperate with researchers out in the land-grant system who are actively looking at the basic question that you raise. There is a group of researchers from across the country who are formed up into a committee which are doing ongoing work in this area. In addition, there are a number of studies which have been commissioned by some of the boards themselves to examine what effect their programs are having. I know, for example, pork and beef have had some work done in that area.

Mr. GUNDERSON. Do you make recommendations regarding what percentage of the budget ought to go to research and what part for education and what part for promotion?

Mr. CLAYTON. We do not.

Mr. GUNDERSON. Do you review what percentage of the money is used for administrative expenses and salaries?

Mr. CLAYTON. We do.

Mr. GUNDERSON. What is the average percentage?

Mr. CLAYTON. It varies, Mr. Gunderson. That is a whole interesting area unto itself as well because administrative cost is something that is somewhat elusive in definition.

In part, that's a function of the way the boards are structured. I can give you an example.

If one looks, for example, at the Beef Board, whereas I recall there is a small staff of 15 or 20 people who are involved in administering that program, you compare that to the Pork Board and the pork program where there are two individuals who are handling the Pork Board work. You get into some definitional issues over exactly what is an administrative cost.

Mr. GUNDERSON. Do you have conflict of interest guidelines between members of the board and organizations they may or may not represent?

Mr. CLAYTON. Are we talking about the relationship between boards and trade associations?

Mr. GUNDERSON. That is part of it. All of the above.

Mr. CLAYTON. I don't know that we have guidelines, per se.

Mr. GUNDERSON. Do you think we need some?

Mr. CLAYTON. I think it is an area where constant vigilance is required.

Mr. GUNDERSON. Have you made any comments regarding salaries as being excessive? Can you name any instance where you have told a promotion board that their salaries were simply too high?

Mr. CLAYTON. Not in recent years. I am told that that issue had come up back in the early days of the cotton program.

Mr. GUNDERSON. Can you give me any expenditure on any board that you have rejected as being improper?

I think we need to redefine what we all mean by oversight.

Thank you, Mr. Chairman. My time has expired again.

Mr. VOLKMER. The Chair recognizes the gentleman from Florida.

Mr. LEWIS. I have no questions.

Mr. VOLKMER. Then we have the gentleman from Virginia.

Mr. GOODLATTE. I have no questions.

Mr. VOLKMER. The gentleman from California.

Mr. POMBO. No questions.

Mr. VOLKMER. Then I get to ask some questions. I don't really know where to start.

I could start on the same area the gentleman from Wisconsin was discussing, but I take a little different approach.

In each of the promotion programs, there is a legislative act. I am hurriedly going through it because I was sitting here thinking as the gentleman from Wisconsin was asking his questions.

Does the act give you the authority, specifically, to supervise these boards?

We will look at it and maybe get together with you later. I worked very diligently personally on the Pork Production Act. I can't remember all these things that you all are now doing. I am just wondering if it is because it is implied because the Secretary makes the appointment to the board. Where are you getting this authority?

Mr. CLAYTON. To supervise the boards?

Mr. VOLKMER. Right.

Mr. CLAYTON. I think the acts are very clear that we have responsibilities to ensure that these programs are carried out as specified in the enabling statutes.

Mr. VOLKMER. Then if that is the case, back in 1988, according to your statement, the AMS Administrator requested that the Office of Inspector General conduct an audit of the program funds. That audit was done. At whose expense was that audit done?

Mr. FULLER. That was departmental expense.

Mr. VOLKMER. Not the expense of the board?

Mr. FULLER. That was not charged to the board, Mr. Chairman.

Mr. VOLKMER. Thank you very much. I appreciate that.

Then the expenses that you do have—and you have set them out here on each one—are they itemized back to the board?

Mr. CLAYTON. The USDA oversight costs?

Mr. VOLKMER. Yes.

Mr. CLAYTON. Yes, they are.

Mr. VOLKMER. So they have a record of—in other words, if the general counsel spends so many hours, then you charge it off to them and they send you a check?

Mr. CLAYTON. We are reimbursed, yes.

Mr. VOLKMER. You are reimbursed?

Mr. CLAYTON. Mr. Chairman, I would be happy, if it would be a help to you, to provide to you a copy of an itemized bill so that you would have a clear understanding of the kind of detail we provide back to the boards as to USDA's costs.

[The material is held in the committee files.]

Mr. VOLKMER. I would like to have that because I am looking at this and on the dairy it appears that in 1992 we had over \$500,000 in costs. Then in the beef promotion, USDA was \$169,000 and \$154,000 with pork and a smaller amount with eggs.

But that has all been itemized. Is that correct?

Mr. CLAYTON. That is correct.

Mr. VOLKMER. Can you tell me if most of that is in auditing, or is it just generally legal work? What is that?

Mr. CLAYTON. Most of that is for salaries of staff within the Agricultural Marketing Service who are on a daily basis reviewing project proposals and budgets and participating in meetings of the boards and its committees and that kind of thing.

Mr. VOLKMER. Quite a bit of the work done on some of these is done in research, especially in dairy.

Mr. CLAYTON. Of USDA's costs?

Mr. VOLKMER. No, by the board itself. It is not just all promotion. There is research also.

Mr. CLAYTON. That's correct.

Mr. VOLKMER. So if the board comes up with some ideas on research, do they just have to submit those to you beforehand?

Mr. CLAYTON. Yes.

Mr. VOLKMER. And then you preapprove?

Mr. CLAYTON. Yes.

Mr. VOLKMER. But you do not distinguish between which ones should be funded and which ones should not?

Mr. CLAYTON. No, sir. We do not make the judgment as to which might be good, bad, or better.

Mr. VOLKMER. Your judgment would only be as to whether or not it falls within the area that the board can do that research?

Mr. CLAYTON. That's correct.

Mr. VOLKMER. Is the same thing true on promotion programs?

Mr. CLAYTON. Yes.

Mr. VOLKMER. So you preapprove everything on promotion also?

Mr. CLAYTON. Yes. The reason I struggled with that just a little bit is that we approve all major campaigns, the major thrusts that the boards are going to take. I think these days we are reviewing most copy for print ads or whatever it might be. That is to ensure that it is something that the act provides for, and also to make sure that any claims which are being made in those advertisements in fact are truthful, that nutrition information is correct, that the claims in fact are justified.

Mr. VOLKMER. So if one of the boards comes up with a new television commercial, they have to submit it to you all before they can use it. Is that correct?

Mr. CLAYTON. Yes.

Mr. VOLKMER. I understand that after you are finished we are going to hear from the various board members. I would like to ask you this question. I have been told this and I don't know whether it is right or wrong.

Before they were coming over here today, they all had testimony. Did they have to submit that testimony to you all beforehand for preapproval?

Mr. CLAYTON. Testimony was provided to us for our review, yes.

Mr. VOLKMER. For review?

Mr. CLAYTON. Yes.

Mr. VOLKMER. Did you make any changes in it?

Mr. CLAYTON. No. I think there was one technical correction we found in some of the dairy testimony, but we did not make any changes.

Mr. VOLKMER. So do you feel that you have the authority to require them to change any testimony they may make before this

subcommittee or any other subcommittee or committee of the Congress?

Mr. CLAYTON. There could be a circumstance where that could happen. I would like to explain why.

Mr. VOLKMER. Yes, you better. [Laughter.]

Mr. CLAYTON. Thank you.

Technically, legally, these boards are extensions of the Secretary of Agriculture. Any policy views that they represent, in effect, end up being policy views of the Secretary. More importantly, though, even when it comes to something like testimony before the Congress, it is important that the boards speak only to those issues for which they are statutorily empowered to speak to, that is, research, promotion, education, and information as defined in the statutes.

We feel that we have some responsibility to ensure that any testimony, as the programs themselves, stay within the bounds of what the statutes provide.

Mr. VOLKMER. When is the last time that the Congress enacted a promotion where you had an up-front referendum?

Mr. CLAYTON. In the 1990 farm bill the program for mushrooms was authorized and it includes an up-front referendum.

Mr. VOLKMER. But it hasn't been implemented.

Mr. CLAYTON. We are in the process now of implementing. Nomination meetings for an initial board were held last week and that program is moving ahead. We have not yet held the referendum.

Mr. VOLKMER. Do you or the Secretary have a position or policy whether promotion programs should be implemented through a delayed referendum or an up-front referendum?

Mr. CLAYTON. It would be the Department's position that either is acceptable. If in fact there is a delayed referendum, it would be our strong view that some provision for refunds ought to also be included with the delayed referendum, either actual refunds to producers or at least an escrow account where refund dollars were held pending the outcome of that delayed referendum.

Mr. VOLKMER. But once the referendum is approved, all persons should be paying into it. Is that correct?

Mr. CLAYTON. That would be correct.

Mr. VOLKMER. I ask those questions because of a policy that you have basically on pages 7 and 8 on referendum and on the promotion boards and their policies.

Are these the same policies that existed prior to January 20 of this year?

Mr. CLAYTON. Yes, sir; they are.

Mr. VOLKMER. Are these Secretary Espy's policies?

Mr. CLAYTON. In fairness, I have not discussed them personally with Secretary Espy. However, the testimony was approved within the Department. I believe this is the Department's position.

Mr. VOLKMER. Presently, doesn't the law—at least on dairy, beef, and pork—provide that if the Secretary determines that a program is not fulfilling the requirements of the statute he has the power to terminate it?

Mr. CLAYTON. Yes, sir.

Mr. VOLKMER. Therefore, I want to go back to the question of the gentleman from Wisconsin. How is the Secretary to make that de-

termination if no one in his Department ever reviews the programs with the idea to see if they are fulfilling it or not?

Mr. CLAYTON. Mr. Chairman, I think there is in fact an ongoing process certainly in terms of whether the programs are manageable or unmanageable from just an administrative standpoint. Clearly, we have that information we can give to the Secretary. Certainly the Secretary pays close attention to views out in the industry and is very sensitive to those views. Of course, in the case of dairy, we do have the ongoing evaluation activity.

And as I mentioned in my answer previously, in fact there are other kinds of research going on out there which also are available to us. I think there is quite a bit of information available to the Secretary.

Mr. VOLKMER. Would you take that as maybe an approach would be that it is working unless it is shown otherwise to be not working? Is that your viewpoint?

Mr. CLAYTON. I suppose that given there is a statute in place which authorizes these programs by the Congress, there is demonstrated industry interest and support—and I realize there are some differences of view on some programs. I think you will hear from some of your other witnesses this morning that for a number of these programs the industry support levels are very, very high.

I guess if you accept those things, then if it doesn't appear to be broken, we are not going to be look for a way to fix it.

Mr. VOLKMER. I have no additional questions.

Any member have any more questions?

The gentleman from California.

Mr. DOOLEY. I just wanted to make a few comments representing California. We have probably more marketing orders which affect our agricultural industry than probably any other area of the Nation.

I was a little concerned by what I interpreted to be an inference by Mr. Gunderson that perhaps he felt that USDA should have greater oversight and greater involvement in some of the decisions which USDA is making in terms of these marketing orders.

I want to make it very clear that I don't think that is the case at all. We have the industry that has spoken most often, that has the people on the boards, who have the expertise to make the decisions that they think are going to be in the best interests of their members.

I personally think that USDA, regardless of the professional expertise that all of you may have, and, as a grower of a couple of commodities that are involved in marketing orders, I don't want you making the evaluations and determinations on how the marketing order dollars are going to be spent as long as we have the industry speaking for itself and it has the support of the growers, as demonstrated by the referendums. In the referendums on almost every marketing order that we have in California they are up for an automatic vote in a set period of time, which gives the dissidents who have some concerns the chance to go through an amendatory hearing process, if need be, to make the changes in the order so that it does adapt to new situations that might occur.

I really don't have a question. I just wanted to make clear that it is not necessarily—do not misinterpret some of the concerns that

some of the people share. I think there are some legitimate concerns out there, but they should not be interpreted to mean that this body believes that there ought to be greater oversight or greater involvement by USDA.

I can see where there is certainly a need to have very significant oversight, but certainly I am not one who thinks we should have greater involvement by USDA in some of the decisions on the allocation of the resources, which are producer resources. They are not Government resources. The producers should have the greatest say in how those are being utilized.

Certainly when we look at the success of some of these promotional programs, there is a great body of evidence and analyses out there. I have recently had a chance to review the Florida State citrus program and the Washington State apple program, which have had tremendous success. The Washington State apple program, in particular, has demonstrated that on their limited budget almost every dollar they have invested has shown almost a \$6 return in increased sales.

These programs work. For some of the people who will be testifying here today who are concerned about whether or not these programs should continue, I think you have to understand the budget realities we will be facing in USDA. You are going to have less support from Government programs. It is going to be increasingly incumbent upon the industry to self-sustain, to create those funding mechanisms that are going to allow them to collectively promote and enhance their industry and their profits.

That is what the budget is going to force us to do. I would caution people that the answer is not often going to be to throw out these marketing order programs. The answer is going to be to find out how to make them work, to look at some of these others that have been proven successes and to try to emulate them in a fashion that can show the same returns.

I apologize for not asking a question, Mr. Chairman, but I wanted to make that statement.

Mr. VOLKMER. I think you did very well from your soapbox. [Laughter.]

Dr. Clayton.

Mr. CLAYTON. Mr. Chairman, I am a little concerned that Mr. Gunderson may have stated a case a bit strongly from our point of view in terms of what overview activities we are involved in. We in fact work very hard to fulfill the responsibilities as we see them and understand them.

If it would be OK, I would like to respond back to you with some examples of situations where we have had some give and take with the boards to either have them make some adjustments in an activity they were planning to undertake, or a change of that nature where in fact we were involved with them. I think the record would be incomplete without some examples that speak to the issues with which Congressman Gunderson was concerned.

Thank you.

Mr. VOLKMER. That will be welcome as long as it doesn't cost the boards too much.

Mr. CLAYTON. I promise.

[The material follows:]

EXAMPLES OF USDA CONCERNS TO COMMODITY BOARDS
ON VARYING ASPECTS OF PROGRAM ADMINISTRATION

AMERICAN EGG BOARD

In October 1991, we recommended that the American Egg Board's (AEB's) advertising firm change the headlines on two print ads. The advertising copy bore nutrition claims, all of which complied with applicable Food and Drug Administration regulations. However, we believed that the headlines did not conform to the requirements of the Federal Trade Commission (FTC) with respect to misleading advertising. We suggested alternative headlines which would comply with FTC guidelines.

In December 1992, AEB decided to increase funding for a research project which began in 1991 without formally amending the contract. We required AEB to amend the existing contract and submit the change to us for our review and approval. We also advised that university officials must sign and return the amendment before any transaction could occur.

EXAMPLES OF PROJECTS AND ACTIVITIES OF THE NATIONAL DAIRY
PROMOTION AND RESEARCH BOARD THAT WERE REJECTED BY USDA

The Dairy Division works closely with the National Dairy Promotion and Research Board (NDB) and its staff on the development of projects and procedures to ensure full compliance with the enabling legislation, Order, and USDA policy guidelines. There are, however, instances where USDA does reject projects and undertakings of NDB. These rejections can come at different stages of a project--at the time a resolution is being formulated by NDB, at the time the contract has been submitted to USDA, and after the project or procedure is in operation. Following are some examples:

- At the February 1992 NDB meeting, the Export Enhancement Committee submitted to the full Board a resolution to provide funds as a humanitarian aid plan for Russia. The USDA representative at the meeting provided USDA's perspective on the proposal indicating that the project, as proposed, would be viewed as a donation and would not be approved by USDA. The representative did provide some alternatives to the plan. However, after much discussion the resolution was defeated.
- On August 16, 1985, USDA notified NDB that their product research contract involving the development of a feed product from a milk by-product (whey) was disapproved because in the Department's view, the project would not increase the human consumption of milk as required by the Act.
- USDA notified NDB on October 24, 1990, that a review of their investment procedures was being made. NDB was notified on February 26, 1991, that its existing investment procedures with respect to repurchase agreements were no longer in compliance with Federal policy. NDB was instructed that investments in repurchase agreements had to be held in a safekeeping account at a third-party bank in NDB's name to ensure their safety. Since June 17, 1991, all NDB investments in repurchase agreements comply with this requirement.

EXAMPLES OF USDA CONCERNS TO COMMODITY BOARDS
ON VARYING ASPECTS OF PROGRAM ADMINISTRATION

BACKGROUND--USDA Working Relationship with Boards:

We attend Board meetings and committee meetings where Board decisions on budgets and projects are made. At these meetings, as well as in other verbal and written communications, we provide continuing input concerning permitted and prohibited uses of Board funds. In particular, we have open, ongoing, two-way communication with Board officers and staff. As a result, in almost all instances, areas of concern are resolved before programs are formally submitted to USDA as part of a budget or project approval package.

CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD

In 1988, we did not permit the Board to air proposed TV spots concerning animal care. The ads were scheduled to run during the 2 weeks prior to the November 8 election, primarily in Massachusetts where an animal rights question was on the ballot. Due to the timing and planned concentration of these ads in the New England area, this activity appeared to violate the prohibitions against lobbying.

In 1989, we disapproved funding for projects entitled "Development of Information on Space Requirements for Veal and Beef Calves" and "Comparison of Veal Calf Husbandry Practices." These projects appeared to be proposed research projects which did not fall within the parameters of the definition of research provided in the Act. That definition is stated as follows: ". . . the term 'research' means studies testing the effectiveness of market development and promotion efforts, studies relating to the nutritional value of beef and beef products, other related food science research, and new product development."

NATIONAL PORK BOARD

In 1990, we disallowed funding for a seminar on making swine buildings a safer place to work which involved employee health and safety which was considered to be nonanimal specific. Board recovered expended funds.

In 1993, we did not approve two radio ads which we determined to be disparaging to chicken. Ads were revised.

Mr. GUNDERSON. Mr. Chairman, let me just clarify in case there is any doubt in what my motives are in my questioning here this morning.

I am 1,000 percent in support of the promotion programs. I am concerned that unless we make some necessary revisions to regain the confidence of the producers who pay the promotion fees that we run the risk of losing these programs. That is my concern.

Part of the problem, I must tell you—coming from Wisconsin where there is a great deal of opposition, as you know, to these boards—is exactly, Is the money used properly?

I am trying to clarify what we mean by oversight here. I agree totally with what Mr. Dooley is saying, that we're going to have very limited Government resources to spend on USDA oversight. I suspect that means that we're going to have to make some changes, quite frankly, in the statutes. This is what concerns me. We have to decide which way we're going here.

The promotion board, which is going to testify next, I assume, says in their testimony that all contracts are reviewed and approved by USDA. That is significant oversight if absolutely every contract of every promotion board is reviewed by you gentlemen and approved by you before one dime is spent. That also puts a ton of burden on you because if we ever find in all these audits that there are problems, we are going to come back to you all and ask, "Why did this happen? What kind of oversight did you or did you not do?"

That gets me back to the question I asked earlier. In all of these contracts over the last decade, you can't tell me that you haven't reviewed some of them and said, "Wait a minute. This is a red flag that is going to create problems for you, your promotion program, and us at USDA."

If there isn't, then this line about contracts being reviewed is irrelevant and we simply ought to change the statute. That is what I am trying to get at here.

Let me follow that up.

All assumption would suggest that Secretary Espy is going to get a petition from the Dump the Dairy Board Group. My question to you is, How much discretion does the Secretary have? To what degree is a certain number of petition signatures required? And to what degree does USDA audit those signatures to determine their accuracy before they approve or order such a referendum?

Who can give us the guidelines of what the process will be when and if that happens?

Mr. CLAYTON. The Secretary basically has two options. He has general authority under the act to call a referendum at any time that he thinks would be appropriate. One possibility here clearly is that several boxes filled with petitions would evidence perhaps a need to clear the air and hold a referendum. He could exercise his authorities and do so.

Alternatively, the act and the order do provide that if 10 percent of producers petition the Secretary to hold a referendum, then he by statute is required to do so. We have made clear that it is our view that something on the order of 14,500 signatures would be required. If we go the route of the 10 percent trigger for a referendum, then we would in fact have to review those petitions to en-

sure that the names included are valid. If in fact we arrive at something on the order of 14,500 valid signatures, that would trigger a referendum.

Mr. GUNDERSON. Would you audit those signatures to determine their accuracy before you would make a determination?

Mr. CLAYTON. Yes.

Mr. GUNDERSON. To what degree would you expend USDA resources to do that?

Mr. CLAYTON. You put your finger on an important issue, obviously, because that could be a rather resource intensive activity. That is why I say to you that the Secretary in fact has two options available to him. If he is sufficiently convinced that there is merit in holding a referendum, he can do so. Alternatively, he may direct us to validate the signatures.

Until he has that petition in hand, we will not have a decision on how he might choose to proceed. All I can tell you here is the basic process.

Mr. GUNDERSON. Because I am almost out of time here, I am going to indicate that I would appreciate it if you would take back to the Secretary my hope that the Secretary will, at his convenience, review the promotion boards and make recommendations to the Congress on any statutory changes he believes are or are not necessary in order to improve their operation. In doing so, I would hope that he would consider such issues as the selection or appointment of a board, the generic versus brand name advertising, and use of such funds, the issue of duplication of promotion dollars in coordination with State and regional promotion programs, the issue of conflict of interest, and the issue of USDA oversight, role, and responsibilities.

Finally, before the red light goes on, do you have the authority to order a fluid milk promotion program, or must that come by petition?

Mr. CLAYTON. The Department must receive a proposed order from an interested industry group. That was in fact received by the Department at the end of the summer. We have been working with that proposed order. There were a couple of problems with it. With the change of administrations it did not get out, obviously, but it is currently being reviewed with the Secretary. I expect a decision on how we will proceed very shortly.

Mr. GUNDERSON. Thank you.

Thank you, Mr. Chairman

Mr. VOLKMER. Thank you very much.

Dr. Clayton, thank you very much for your statement. I will just make one further observation.

The Secretary isn't the only one who can terminate these promotional programs. Congress can do the same thing. We are the ones that set them up to begin with. I don't want to put everything on the back of USDA. I think we have an obligation and responsibility with regard to oversight and that is the reason we are having hearings.

Thank you very much for your testimony. I appreciate your being here today.

Mr. CLAYTON. Thank you, Mr. Chairman.

Mr. VOLKMER. Our next panel is Mr. James P. Camerlo, Jr., president, National Milk Producers Federation, accompanied by Mr. Jim Barr from the National Milk Producers Federation; Mr. James A. Loper, chairman, National Dairy Board, Santa Teresa, New Mexico; accompanied by Ms. Cynthia Carson, executive director, National Dairy Board; Mr. Terry Hall, a dairy farmer from Westminster, Maryland; and Mr. Stewart Huber, president, Farmers Union Milk Marketing Cooperative from Madison, Wisconsin.

Before we proceed with this panel, I would like at this time to recognize the chairman of the full committee, Chairman de la Garza, to make any statement he wishes to make.

I appreciate your being here, Mr. Chairman, for this hearing.

The CHAIRMAN. Thank you very much.

I have no statement except to say that this is a very timely hearing and a very important subject matter. I appreciate the chairman of the subcommittee addressing this issue at this time.

Mr. VOLKMER. Thank you very much, Mr. Chairman.

Without objection, the prepared statement of the gentleman from Oregon will appear in the record.

[The prepared statement of Mr. Smith follows:]

STATEMENT OF ROBERT F. SMITH
BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON LIVESTOCK
FEBRUARY 24, 1993

Mr. Chairman, I'd like to thank you for calling this oversight hearing to review the activities of the producer-funded livestock research and promotion programs.

I would like to talk about the importance of exports to the American beef industry as my example and the role.

Domestic demand for beef has flattened. From a high in 1976 of 88.8 pounds per capita, domestic consumption has stabilized at around 64 pounds per capita. While some of the stabilization comes as a result of the checkoff and promotion, it is clear that exports present our best opportunity for growth. This growth is helping to eliminate the traditional cycles that have threatened our industry for so long.

The Beef Board recognizes this too, through its funding of the Meat Export Federation. The U.S. exports about 8-9% of its beef production in value. The Beef Board devotes about 12-14% of its resources to the Meat Export Federation. Like me, they understand the importance of expanding exports while maintaining market share at home.

The MEF receives 18% of its funding from the Beef Board, or \$4.6 million of its \$25.4 million program funding in fiscal year 1992. I would like to remind my colleagues that two thirds of MEF's funding support comes from the Market Promotion Program, which is why it is important for us to keep MPP healthy.

The US exports about 5.1 percent of our production. From a value of \$500 million in 1980, exports have grown to about \$1.7 billion today. If we can sustain this level of international market penetration, beef exports are projected to grow to \$4.75 billion by the year 2,000.

The Japanese Beef & Citrus Agreement taught us the value of export markets in a dramatic way. From being virtually shut out, the US now relies on Japan to purchase 62% of its beef exports. We have achieved the \$1 billion mark and are driving towards a \$2 billion market share.

April 1st will mark the beginning of the 6th year of the Beef & Citrus Agreement. Tariffs on beef imports will fall from 70 percent to 50 percent. It is anticipated that negotiations about future tariff discussions will start sometime this year and industry representatives are hopeful that these will prove fruitful.

The beef agreement negotiated with South Korea in 1989 set import quotas of 52,000 metric tons in 1990, 56,000 metric tons in 1991, and 60,000 metric

tons in 1992. They have exceeded this greatly each year, with over 100,000 metric tons for 1992.

Consumer demand has been very high as a result of exposure to American product and domestic production remains inefficient. South Korea remains as a tremendous potential for growth. Talks are scheduled for next month to try to obtain a truly free market.

Currently, importers have to market through their domestic co-op. Also, the Koreans have not officially accepted GATT rules of trade for beef. In any event, prospects for keeping and expanding this market are extremely favorable.

The success stories of Japan and South Korea hold for other Pacific markets such as Malaysia, Thailand, Philippines, Singapore and Hong Kong. The region is experiencing strong growth in both economic and population.

However, one of the greatest potential markets is right at our back door. I am speaking, of course of Mexico.

The proposed North American Free Trade Agreement will prove valuable to the livestock industry generally, and the beef industry specifically, for a number of reasons.

It will eliminate the potential for tariffs on US beef like the ones imposed by Mexico in December. Our competitors in Europe, Australia and New Zealand will not have this advantage.

When Mexico's economy grows so does their beef consumption. Mexican beef consumption expanded 60 percent from 1986-89 as per capita GNP increased 35 percent. This, coupled a population growth has dramatic consequences. Mexico's population is expected to go from 84 to 102 million by the year 2000; that's quite a market.

A cross-border market leads to a more efficient industry. By improving carcass utilization, one USDA economists suggests we could see a 3-5 percent price increase.

And, while all this is happening, it is important to remember that Mexico will have to improve its infrastructure to increase beef production while we're ready to go right now. Our cattle industry is ten times the size of Mexico's.

I'm regarded as a shameless advocate of the beef industry, and I'm comfortable with that role. However, my colleagues should understand that the health of the beef industry has implications for all of agriculture. Its important to remember that beef exports represent a value-added commodity, a very popular concern these days.

The 100 million head of cattle in this nation have to put on weight to be profitable to their owners. They eat grain. When the beef industry gets a chill, the rest of agriculture gets a cold.

Over 22,000 feedlots and 4,300 packing plants are backed by almost a million cattle operations. The beef industry involves countless others in transportation, retail marketing at home and, as I've mentioned, our export sector. In 1991, a total of 135,000 American jobs were created or retained because of U.S. red meat exports.

I look forward to hearing the testimony of today's witnesses and applaud the ongoing efforts of these industry-funded organizations to improve economic prospects for our farmers and ranchers by enlarging market opportunities.

Mr. VOLKMER. Gentlemen, your statements will be made a part of the record. We will withhold any questions of any member of the panel until all the panel has testified.

We will begin with Mr. Camerlo.

STATEMENT OF JAMES P. CAMERLO, JR., PRESIDENT, NATIONAL MILK PRODUCERS FEDERATION, ACCOMPANIED BY JAMES C. BARR, CHIEF EXECUTIVE OFFICER

Mr. CAMERLO. Thank you, Mr. Chairman. I am Tom Camerlo, a dairy farmer from Florence, Colorado. I serve as president of the National Milk Producers Federation, the national farm commodity organization representing dairy producers and the dairy cooperative marketing associations which we own and operate throughout the United States. I appreciate this opportunity to testify about dairy promotion programs.

Before beginning, Mr. Chairman, I want to congratulate you on your election to chair the Subcommittee on Livestock. The federation has enjoyed working with you in the past and we look forward to working together with you in the future as we develop and improve programs and plans that benefit dairy producers.

The federation was the principal proponent of the Federal statute enacted in 1983 authorizing a national program for dairy product promotion, research, and nutrition education. The program was part of a comprehensive self-help strategy funded by all dairy producers to increase dairy product consumption both domestically and in foreign countries.

The Dairy Promotion and Research Order authorized by the statute became effective in 1984. The following year, almost 90 percent of the dairy producers who voted in a referendum approved continuing the program. Revenue from the 15 cents per hundred-weight assessment paid by every dairy producer on all milk marketed amounts to more than \$215 million annually.

The law requires the U.S. Department of Agriculture to submit an annual report to Congress describing program activities and analyzing program effectiveness. We are pleased that the independent analysis shows that the program has been effective in increasing our dairy product consumption.

I believe that the program is an essential part of an overall plan to improve both domestic and foreign markets for U.S. dairy products. The program continues to have widespread support among most dairy producers. However, there have been recent efforts to have dairy producers sign petitions requesting USDA to hold another referendum on whether the program should be continued.

The law provides for holding the referendum when requested by at least 10 percent of the affected producers. I think concerns about the program held by some producers could be overcome by making a few program modifications.

USDA has program oversight responsibilities to ensure that all funds are properly accounted for and that the program is administered in accordance with the statute and the order. USDA's oversight costs are reimbursed from the assessment revenues. Consequently, oversight expenses reduce funds available for promotion activities.

We welcome necessary USDA oversight. However, some oversight seems to exceed what is necessary, for example, the recent directive from USDA to qualified State and regional programs telling them how funds should be invested. Another questionable oversight activity is USDA audits of qualified promotion programs. This sometimes appears to duplicate work done by firms that regularly audit qualified programs.

The law creating the National Dairy Promotion and Research Program called for a coordinated program of promotion designed to strengthen the dairy industry's position in the marketplace. In order to better coordinate dairy promotion efforts, the federation supports one national dairy promotion and research organization. Such enhanced coordination could best be achieved by consolidating the functions of the National Dairy Promotion and Research Board and the United Dairy Industry Association.

I am convinced that the coordination needed between national, State, and regional dairy promotion programs cannot be accomplished unless representatives from State and regional dairy promotion organizations participate fully in the planning and implementing of the National Dairy Promotion and Research Program. Almost two-thirds of the dairy promotion expenditures are controlled by State and regional organizations. However, no structure currently exists for these organizations to participate in developing a coordinated National Dairy Promotion and Research Program.

To correct this problem, the dairy promotion program should be modified to include an organization like the beef promotion operating committee, the group that develops beef promotion programs and budgets. That 20-member committee is composed of 10 beef board members and 10 members elected from the State beef councils.

A similar organization for the dairy industry should include an equal number of members elected by the National Dairy Board and the United Dairy Industry Association. This organization should be responsible for developing national dairy promotion programs and budgets.

The Secretary of Agriculture currently appoints 36 dairy producers to run the national dairy promotion program. The Secretary's selections are made from nominations submitted by organizations that represent dairy producers. Some producers believe that the present appointment process is responsible for inequities in representation of the National Dairy Board and insufficient producer control over programs. A better alternative to achieve equitable representation and to ensure producer control over programs would be to have the National Dairy Board members elected by dairy producers.

Again, I appreciate this opportunity to provide you with our views on the dairy promotion program. I will be happy to respond to any questions, Mr. Chairman.

[The prepared statement of Mr. Camerlo appears at the conclusion of the hearing.]

Mr. VOLKMER. Mr. Loper.

STATEMENT OF JAMES H. LOPER, JR., CHAIRMAN, NATIONAL DAIRY PROMOTION AND RESEARCH BOARD, ACCOMPANIED BY CYNTHIA CARSON, EXECUTIVE DIRECTOR

Mr. LOPER. Mr. Chairman, my name is Jim Loper, a dairy farmer from Santa Teresa, New Mexico. I milk 300 cows with the help of my wife, son, and daughter-in-law. I am currently the chairman of the National Dairy Promotion and Research Board.

The National Dairy Board was created by the Dairy and Tobacco Adjustment Act of 1983 to carry out a coordinated program of promotion designed to strengthen the dairy industry's position in the marketplace and to maintain and expand domestic and foreign markets and uses for fluid milk and dairy products produced in the United States.

The board consists of 36 dairy producers from across the 48 States with representation based on geography and milk production. The Secretary of Agriculture does appoint board members from nominations—at least two per open seat—made by farm groups. Board members can serve no more than two consecutive terms.

Dairy farmers fund all National Dairy Board programs via a 15-cent per hundredweight assessment on all milk marketed commercially in the United States. Typically, 10 cents of the assessment funds State and regional programs while the remaining 5 cents, about \$75.6 million, goes to National Dairy Board programs.

I might point out that by law none of the National Dairy Board funds are spent to influence legislation or regulation. Attachment I to this testimony spells out income and expenditures for the last 5 years.

As was the charge set out in the act creating it, the National Dairy Board has committed the past 3 years to coordinating promotion efforts by national, State, and regional organizations whenever possible, so that the entire 15-cent assessment is working to maximize return on investment to dairy farmers.

Today, we have coordinated advertising and promotion programs in fluid milk, cheese, butter, ice cream, nutrition education, and dairy foods, and nutrition research. Key business priorities spell out the allocation and integration of resources. Priorities for the next fiscal year, beginning May 1, are finding new consumer uses for milk fat, increasing consumption of fluid milk, increasing cheese sales, creating a positive image for dairy foods, and working more closely with dairy farmers funding the program.

Attachment II to this testimony details the priorities, rationales, and strategies for the coming year. To keep the overhead costs low, the staff works with outside contractors such as advertising agencies and university researchers.

All of this work is conducted under comprehensive and stringent contracts and all are reviewed and approved by the USDA. All nutrition education programs are consistent with USDA Handbook VIII.

The board sets clear measurable objectives for each priority and program so that they can be evaluated. Our market and economic research department evaluates the advertising effectiveness as well as the impact of promotion and education programs. If programs do not achieve objectives, they are eliminated or changed.

As a requirement to the act establishing the Dairy Promotion Program, USDA has to submit a yearly report to Congress which must include an independent evaluation of the effectiveness of the program. The 1992 USDA Report to Congress states that expanded advertising, made possible by the Act, increased fluid milk sales by an estimated 4.6 percent over sales which would have been without the program.

The additional cheese advertising expenditures increased national retail sales of cheese for in-home use by an average of 2.4 percent over what sales would have been without the program. Other independent evaluations have shown returns as high as 3 to 1 on dairy farmers' investment in promotion. Our own internal evaluations have shown significant upward spikes in sales related to specific programs for butter, cheese, chocolate milk, and ice cream, all of which were promotions coordinated with the State and regional groups. In addition, dairy foods and nutrition research has led to the development of safer, better quality dairy foods as well as the scientific knowledge that dairy foods are nutritious.

In line with its mission, the National Dairy Board has worked to maintain dairy sales. In the past 4 years, the board has devoted resources to maintain the healthy image of milk and dairy products through an onslaught of food safety issues. These range from the controversial BST issue to animal medication residues to a famous baby doctor stating that milk is bad for children. In today's climate, we expect that the defense must continue.

I mentioned the controversial BST issue. The National Dairy Board's concern was that BST would have a significant negative impact on dairy sales, which was confirmed by consumer research. The board recognizes its responsibility to maintain consumption, and therefore, developed a program distributing scientific information about the safety of milk from cows treated with BST to third parties such as pediatricians and so on.

As a result of the board's program, the group which has raised the food safety questions, the Foundation on Economic Trends, filed a lawsuit against the board contending that the information program violated the provisions of the act to prohibit influencing Government activities. The lawsuit was subsequently dismissed by the court.

Some dairy farmers, many of whom were concerned with the BST issue, and also involved in the lawsuit, started a petition drive to call for a referendum of the National Dairy Board. This dump-the-dairy-board campaign has been going on since October 1991 with much trade media publicity associated with it.

In early December, representatives of the petition drive met with the Deputy Secretary of USDA, presumably with the required petitions in hand. However, they chose not to leave the petitions and stated that they would schedule a meeting on this issue with the new Secretary.

Mr. Chairman, in closing, let me say that the National Dairy Board is consistently striving for more effective, better coordinated programs to increase the return on investment to dairy farmers. We look for input from our fellow dairy farmers to make sure that we are meeting their needs within the bounds of dairy promotion.

Thank you for this opportunity to talk to you about the National Dairy Promotion and Research Board.

[The prepared statement of Mr. Loper appears at the conclusion of the hearing.]

Mr. VOLKMER. Mr. Hall.

STATEMENT OF TERRY HALL, DAIRY FARMER, WESTMINSTER, MD, ON BEHALF OF THE DUMP THE DAIRY BOARD COALITION

Mr. HALL. In answer to the question I heard about the petitions being handed in, they will be handed in in the very near future. We do have a meeting set up with Mr. Espy.

My name is Terry Hall. My wife and I have been in the dairy business for 10½ years. We rent a farm of 70 tillable acres for \$900 per month. We have 50 Holstein milk cows and 40 plus heifers. We market our milk through Dairyman, Incorporated.

In November of 1982, I was paid \$13.87 for base milk and \$9.53 for excess. The co-op held capital retains. My hauling rate was 49 cents per hundred with a stop charge of \$2.

In January of 1993, I was paid \$13.21 for my base and \$11.40 for my excess. My co-op held retains and estimated patron dividend. I paid a Government assessment amount into two promotion funds. My stop charge was \$5 and my hauling rate was 60 cents per hundred.

In 10 years I have watched the price of my product go down, and the requirements to ship class I milk and meat go up. In 1988, the State of Maryland said my well water was not safe to wash the milk line and bulk tank, but was safe for me and the cows to drink. So at a cost of \$45,000, my landlord hooked up to city water. When the State came to take a sample, they found it to be no better than what was in the well. They kept the \$45,000 and now I have a water bill to go along with my expenditures every month.

We sell our cull cows and calves at the local stockyards. In 1982, cull cows would sell for 40 to 60 cents per pound. Today, they sell for 20 to 40 cents per pound.

I am told by these promotion experts that it is essential to advertise and research milk and meat. They claim that the demand for these products has gone up since the mandatory check-off has come into effect. If so, why am I receiving less today than 10 years ago? While my products are 100 percent inspected and taxed, the imported dairy products pay no promotion and are 2 percent inspected.

My wife and I have no idea what we will receive for our products from month to month, but the people who work for these promotion agencies are guaranteed an income whether my product price goes up or down. Tight management practices require that I do away with things that are not beneficial, for example, no new equipment of any kind and no health insurance for my wife and three children. How can you say these check-offs are beneficial to me when I'm being paid less than I was 10 years ago?

I took and broke down the train ride here today. For my January milk, after the promotion, the hauling, the assessments, the capital retains, and estimated patron division \$12.18 for first-class milk. In 1982, \$13.33.

As far as this National Dairy Board, I have met with people who sat on it. Immanuel Santos was on it for 6 years when it was first set up, and he doesn't support it at all. I spend \$1,000 a year on promotion and this is all I am given. I have called down there and asked what these people make and am told to call USDA through the Freedom of Information Act. They have spent money, they say, to educate the public about this BGH, but there is a surplus of milk. Why don't they just say that the dairy industry does not want it?

In one year, they spent \$1.1 million for public relations. When this Dump the Dairy Board Coalition started up they hired Charles Garrison as a public relations person to sell the National Dairy Board to us. This was just in the early part of 1992.

As far as the man down here on the end from National Milk, I talked to one of the members that went to National Milk's annual meeting in Las Vegas, Nevada this past December. I asked him what was discussed to get the dairy farmer more money for a product. You say that the demand is so great for it.

He talked about the Clinton administration and that was it. Yet, my co-op paid for every 50 people that went out there to this meeting.

I can't see where this advertising—when I go to get a bowl of cereal, I don't go to the water spigot and put water on it. I go to the refrigerator and put milk on it. When I eat a cheeseburger I don't put a piece of plastic on it. I use cheese. I do not see where we have to advertise for people to eat milk and cheese. I would sooner see the industry as a whole—let Kraft advertise it. They are making a lot of money. Let them promote their products. We are out there 7 days a week investing all the capital.

I can't sell animals anymore to the stockyard if I give them antibiotics because their kidneys were diseased. They can't even kill those animals for slaughter. I just don't see how this is working. I am working off the farm part-time to help pay my expenses.

Thank you.

[The prepared statement of Mr. Hall appears at the conclusion of the hearing.]

Mr. VOLKMER. Mr. Huber.

STATEMENT OF STEWART G. HUBER, PRESIDENT, FARMERS UNION MILK MARKETING COOPERATIVE

Mr. HUBER. Mr. Chairman and members of the subcommittee, my name is Stewart Huber. I own and operate a Wisconsin dairy farm along with other members of my family and serve as president of Farmers Union Milk Marketing Cooperative. On behalf of our more than 10,900 members in eight Midwestern States, we thank you for holding this hearing and allowing us to testify here today.

At the outset, let me say that dairy farmers we represent tend to measure the success or failure of the dairy promotion programs they fund by the economic health of their farming operations. By that measure, these programs could be doing better, much better. Conditions on Midwest dairy farms have deteriorated dramatically during the past 7½ months. Green Bay Exchange cheese prices

have been in free fall and the Minnesota-Wisconsin price is expected to range from \$10.10 to \$10.60 by April.

Good dairymen who have weathered other declines, who have been survivors in past rough periods are caught short this time. In the past week, three excellent dairy farmers have indicated when they went in to renew their loans at the bank in past days they were told their operations won't cash flow on projected prices. They're angry, they're frustrated, and they want something done. That frustration can be seen in the campaign to dump the National Dairy Board, which delegates at our two most recent annual meetings have endorsed.

Mr. Chairman, I should like to submit the statement that was prepared at that meeting by our delegates.

If a referendum is called, the outcome at this time would be uncertain. Clearly, dairy farmers expect more from their promotion check-off dollars.

As I testified before the full committee on February 3, an effective long-range supply/management program, or surplus disposal program, is urgently needed to prevent a small amount of surplus from depressing the price on the rest of our production. While we encourage you to concentrate your energy on that goal, we also want you to consider our views on how the National Dairy Board might better serve the producers who foot the bill.

Let me state for the record that the Farmers Union Milk Marketing Cooperative board of directors pledged in December of 1992 that it would not block vote in the upcoming review referendum on the National Dairy Board. Our board also challenged all other dairy cooperatives to take the pledge against block voting in this referendum.

We believe that producers should be actively encouraged to vote on the fundamental question of the future of the National Dairy Board. Block voting interferes with that right. You may want to join us in encouraging all cooperatives not to block vote on this question.

One of the principal reasons dairy product demand has been relatively flat is because our products' image has been tarnished. We have allowed dairy products to be pictured as an excessively expensive farmer monopolized and subsidized commodity that is dangerous to health. It is sad because the truth about price, quality, nutritional value, even the Government program cost could be our best public relations.

Some well-financed groups with their own secret agendas have done us in. We must stop being in a defensive mode and be proactive. We have a great story to tell the Nation.

If a check-off program is to remain, then the Agriculture Committee should look at assessing imports on a milk equivalent basis. Dairy farmers dig deep in their pockets to fund the National Dairy Promotion and Research Program only to see imports getting a free ride. I happen to serve as a member of the Beef Promotion and Resource Research Board, which has authority to collect check-off revenues from beef importers.

If farmers vote to continue the program, it makes sense to the National Dairy Board to assess imports as well. We urge you to

consider amending the Dairy and Tobacco Adjustment Act of 1983 to create such authority.

Jointly funded brand advertising should be explored since generic advertising has clear limitations. Again, this would require amending the 1983 act, but we strongly believe authorization of some forms of branded advertising tie-ins would improve the program's effectiveness on behalf of dairy producers.

Research and marketing must also be geared to appeal to the tastes and desires of our increasingly diverse ethnic populations with new lifestyles. Our Asian and Hispanic communities are just two rapidly growing new markets which must be better targeted by dairy advertising and promotion.

The National Dairy Board should be much more aggressive in telling the producer's side of the story. The National Dairy Board must do a much better job of anticipating and preempting antidairy, antianimal agriculture propaganda from radical animal rights activists, their allies in the medical community, the vegetable oil lobby, and others with hidden agendas.

We must be proactive rather than reactive. We simply cannot allow fringe groups, like the Physicians Committee for Responsible Medicine, which is a front for People for the Ethical Treatment of Animals, and well-funded crusaders like Phil Sokolof to mislead the public with their harmful dietary propaganda.

And finally we think there needs to be more separation between livestock promotion boards and those organizations with which they contract promotion, research, and administrative services to avoid even the appearance of impropriety. This clear separation will ensure that check-off funds are not used for political purposes in violation of the act and producers can have full confidence that their promotion dollars are being used for proper purposes and not for the benefit of other special interests.

Thank you, Mr. Chairman, for the opportunity to appear here this morning.

[The prepared statement of Mr. Huber appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you, Mr. Huber.

Do you have any examples of the Dairy Board ever using funds for either political or policy or lobbying or anything like that?

Mr. HUBER. I believe that we're making a statement about what we think should be the rule, probably that we should be diligent in this matter because whether or not there is evidence that this has happened, there is perception that in some advertising and promotion boards—and I am not necessarily identifying the Dairy Board, as such—but there has been at least some perception out in the country that that procedure might be going on.

I think perception is as important as facts sometimes.

Mr. VOLKMER. Perception sometimes is because of a lack of knowledge by a certain individual. And because they don't know, they may say certain things happened when they are not happening. Because other people don't know that they're not happening, they begin to believe that they are happening. Sometimes people can cause a lot of difficulty for others and also for themselves by what I call pure conjecture and not knowing the full facts. I think

before people make allegations or statements they should know the full facts.

Do you agree with that?

Mr. HUBER. I certainly do. The only thing is that I think the authority given under these research and promotion programs clearly limits activities to those kinds of activities. That is the reason we want to suggest that due diligence be exercised in this area by those of you who have oversight responsibilities in the area.

Mr. VOLKMER. It is not just us. You heard the testimony of USDA. And you heard the testimony of Dr. Clayton. Every contract that goes out—not just certain ones—is reviewed by USDA to make sure that it doesn't interfere with that policy. How can we say, unless we are ready to say that USDA isn't fulfilling its requirements, that they are doing things in violation of that policy?

Mr. HUBER. All I am going to say, Mr. Chairman, is that there were considerable press reports during the past year. I don't care to be in identification of those things, but there were editorials written about allegations made that there was not a clear delineation between boards and some of the trade associations that are involved here.

Our purpose here is to suggest to you that if there is producer concern out here and there is also concern being registered in some of the trade publications about it, then it is something that we should be looking at. That is all I'm saying, Mr. Chairman.

Mr. VOLKMER. My words aren't addressed necessarily to you as to those who are writing about what is going on and perhaps not knowing exactly the facts.

Mr. Loper, you have heard the suggestions that have been made in regard to maybe some changes that could be taking place in the legislation. You're not supposed to be a lobbyist at all. So I want you to know that this is not a lobbying question. This is a question of you as an individual.

What do you think about the imports?

Mr. LOPER. The gamut of restructure moves from a suggestion by National Milk to those producers in California who feel that no restructuring is necessary, along with the Wisconsin Milk Marketing Board—who, by the way, we were all engaged in earlier talks to see if there was a structure that could be beneficial to all dairy farmers. There are many suggestions on how we should do it, but at this point there is no industrywide agreement into what restructuring should occur.

As far as imports go, as a dairy farmer personally—not speaking for the board—I think it is necessary.

Mr. VOLKMER. That's all I'm asking. How do you feel about it as an individual?

Mr. LOPER. As an individual, I believe they should help fund the program.

Mr. VOLKMER. In other words, you would favor that?

Mr. LOPER. Yes, sir.

Mr. VOLKMER. Mr. Camerlo, how do you feel about that?

Mr. CAMERLO. The answer is yes. I think they should be at this point. I think the industry has changed in this area. The industry, Mr. Chairman, as you know, is going through a lot of change. One

of the big changes is that the industry is much more interested in exports than they were in 1983.

In the 1983 to 1984 time period, the industry was looking internally and quite frankly didn't want to put a person on the board and be required to advertise foreign products. I think that has changed. I think the timing is right and that should be done.

Mr. VOLKMER. Mr. Hall, you mentioned at the beginning—and I am not going to ask you to set any time or anything—it is your understanding that the petitions to have a new referendum will be filed with the Secretary in the near future. Is that correct?

Mr. HALL. I didn't get a chance to vote in 1984 when they started to take this money. My co-op voted for me. As an individual, I feel that I should have the right to vote, not to go down to the ASCS office and get a little card and send it in, but to either have my co-op or the National Dairy Board or USDA send every producer that has to pay into the National Dairy Board—we ought to be able to vote yes or no. No more block voting.

Mr. LOPER. Mr. Chairman, if I could respond, by law every individual does have the right to vote no. Incumbent in the act and the law itself is language that says that if a producer does not vote no, block voting means that the co-op votes yes for him. But under the provisions of the act, in my particular co-op also, every member who wanted to vote no is given that opportunity.

I want it clearly understood that there is no restriction on an individual in block voting to vote no.

Mr. VOLKMER. The gentleman from Wisconsin.

Mr. GUNDERSON. Thank you, Mr. Chairman.

I was just thinking that if we had block voting in the presidential election, so that anyone who did not show up to vote would have been assumed as having voted for George Bush's reelection—what the impact in this country would have been. [Laughter.]

I think we have to look at that issue, which is only one of many issues, per se.

Do you have any recommendations for legislative changes in the promotion program?

Mr. LOPER. As a board, we have no recommendations at this time. We have investigated and are looking at the possibility of recommending a change in the way the board is nominated by coming up with some type of election process. But at this point, there is no consensus from the board for any change, but we are looking at options.

Mr. GUNDERSON. And that is the only change you believe is necessary to regain the confidence across the country in the dairy promotion program?

Ms. CARSON. May I respond to that, Mr. Gunderson?

Mr. GUNDERSON. Sure.

Ms. CARSON. In terms of legislative issues, our board hasn't taken a look at that. But our board does take very, very seriously any allegations in terms of our efforts, in terms of not using the funds correctly, our lack of communications with the dairy industry, and so forth. We have really listened very closely to the industry. As a result, we have made some changes in our efforts. We have made changes in terms of increasing our communications with the dairy industry and not just in a one-way communication,

but a two-way communication of both giving information and also listening to producers around the country.

We also have heard very, very clearly—and I believe under the management of the various promotion organizations—we have system—I agree that the structure is not there—to mandate a coordinated program. But there is the opportunity to create voluntary systems to have coordinated programs. As Mr. Loper indicated, we have increased our coordination with the 10 cents and our planning process as well as implementation of our programs have included coordination.

So as Mr. Loper indicated, both fluid milk, our cheese advertising, our ice cream advertising, and butter all have coordinated programs.

Mr. GUNDERSON. Can you name any instance where your budget, operating plan, or any contract that you submitted to USDA was sent back to you rejected?

Mr. LOPER. There has never been a contract rejected, but there have been certain modifications requested. In our system, USDA attends the committee meetings, attends every board meeting, and therefore is involved early in the development of programs. Any potential problems are normally dealt with early on before it goes in stone and is submitted to the Department. But at this time, Congressman, we have not had anything outright rejected.

Mr. GUNDERSON. I need to be careful in what I am saying so that the message is not incorrect. I am not asking for USDA to run your promotion program, but I think it is pretty clear to suggest to me that the USDA oversight is clearly less than accurate. I just don't see that there is any evidence of that kind of participation. Probably there shouldn't be. Probably we should simply change the statutes and say that other than auditing there is simply no role for USDA in this, but I think we ought to look at that.

Mr. Camerlo, you suggested that we ought to deal with this issue of coordination between Federal, State, and regional programs. Are there any other legislative changes that you believe ought to be necessary?

Mr. CAMERLO. I don't know whether we can deal with that, Mr. Gunderson, in legislative or through the order. But there is a structure issue that needs to be considered either legislatively or through the order. The export issue will have to be solved one way or the other.

Mr. GUNDERSON. I really want everyone to leave this room understanding that I am an intense advocate of promotion. The worst thing we could do is terminate our dairy promotion program. But I have to tell you that unless we make some changes and regain the confidence of the dairy producers of this country, we're going to lose this.

It disturbs me to have a hearing like this in the atmosphere of distrust and outright opposition that exists in the dairy promotion today that people don't come forth and articulate the series of things they believe are necessary in order to regain that confidence.

Mr. Loper, can you tell me why Mr. Hall, when he calls you, can't get a list of your financial outlays?

He indicated that he wanted to get a copy of the salaries and was told that he had to go through USDA Freedom of Information Act

to get that. Why isn't that public knowledge to anybody who wants it?

Ms. CARSON. If I may answer that, Mr. Gunderson, he is certainly entitled to any of our financial information that is available to him. We do make available ranges of salaries, both high and low. We have chosen as a Board, and I as management with the Board's support, not to provide individual salaries to dairy farmers for a couple of reasons. One is morale within our staff. It makes it very, very difficult when you put out individual salaries with names attached to them. In terms of ranges, both high and low, and numbers of people within them, that information is available to anyone who wishes it.

Mr. GUNDERSON. I know exactly what you're saying. I have the same problem on my own staff. But when we are using other people's money, I don't think we have that luxury. I think every dime that is spent by the board and who it is spent with ought to be public knowledge to every producer who pays.

Mr. VOLKMER. I would just like to affirm my support for the gentleman from Wisconsin. I forgot to bring it up.

It is different as far as the general public is concerned. But for the people who are paying the salary, I think they are entitled to know what the people are making that they are paying the salary for. I really do. I don't see how that could influence morale at all.

Ms. CARSON. If I may add to that, we have provided salary information by listing each position and the salary for that position in terms of individuals, we have just not attached names to that.

Mr. VOLKMER. I don't care if you attach the names, but I don't want a range. I don't think it's fair to have a range. If you have a secretary making so much, a receptionist making so much, you have people doing promotion and all that type of stuff making so much, you don't have to put a name to it, but as long as you put a title to it and then how much they're making and not \$30,000 to \$50,000—if they are making \$17,562 then put it down as such.

I agree with this gentleman from Wisconsin. Not doing it is going to cause you more harm than good.

Ms. CARSON. I would like to clarify that that information is available.

Mr. HALL. Mr. Chairman, I did find out and it was through the newspaper that they are paid anywhere between \$32,000 to the CEO, Ms. Carson, \$140,000 a year.

Mr. GUNDERSON. Mr. Hall and Mr. Huber, can you tell us what legislative changes or operational changes in the dairy promotion program would cause you to be advocates and supporters of the program?

Mr. HALL. I, myself, would like to see the imports start paying. Hungary brings powdered milk into the United States and they pay no tariff at all. They're not paying any promotion. I would like to see them all pay promotion.

When our troops were down in Africa feeding Somalis, we weren't buying powdered milk to feed them from the United States. They were getting it from New Zealand and Australia where they can graze their cows year-round. I can't graze my cows. I have 70 acres of ground. I have development all around me. Those cows

have to be confined to a smaller area. It is just not profitable for me to do that.

The No. 1 thing is that the price for my product has to go up.

Mr. GUNDERSON. I understand that. That is a different issue. We can hold another hearing about that. The purpose of this hearing this morning is to figure out in this promotion program more than any other—

Mr. HALL. I would like to have a say in what goes on.

Mr. GUNDERSON. So if we go to the election of the Dairy Board, and we assess importers, then would we have your support?

Mr. HALL. If I had a chance to vote yes or no, whether I want the continuation. I am not just paying a nickel, 15 cents comes out of me for this promotion.

To give you an example, this dairy princess last year went down to Memorial Stadium to have her picture taken with Cal Ripken. Cal Ripken, Jr. was given \$25,000 the other year to tell people to drink milk. So the State dairy princess went down there for dairy night and wanted her picture taken with Mr. Ripken. Mr. Ripken wanted \$2,000 for his picture to be taken.

Mr. GUNDERSON. That's why we have to get publication of all of the expenses and the outlays of this operation so that you know what is for the National Dairy Board and what is for some other group. If you have a problem with that, I think we need to figure out who you take that problem to. But don't take it out on this group. I am trying to save the national promotion program.

Stew, what can we do that would get your support for the promotion program?

Mr. HUBER. First of all, let me say that I am an individual. I am representing my organization here today. It has taken a position—obviously, if I am going to be the president and stand I better be advocating the position that has been taken. I want to make that clear.

But I think we have outlined some clear suggestions to the Congress. The block voting thing would have to be changed. That would certainly make our people happier. Another situation we mentioned was the import situation. We think especially with NAFTA and GATT coming down that those are even more critical in the future.

We certainly think that we ought to look at jointly funded advertising as another option. I mention that because I think the generic advertising that is being done on dairy is probably not as effective as something with some brands involved. I know that would take legal changes, but we really think that should be explored. We think the research dollars ought to be looking at very fundamental lifestyles that have changed since 1960 and certainly ethnic changes.

I think those are the basic concerns that we have that would be addressed by the committee. And if it were changed, I think I could get out and lead a march to change the attitudes of our members.

Mr. GUNDERSON. In closing, I would like to submit a request to each of you that within the month each of you would submit at least to me—I am not sure whether the chairman is interested in receiving it or not—your recommendations for legislative changes in the dairy promotion program as it presently operates—not policy

changes in terms of your basic programmatic decisions, but legislative changes in the authorizing, assessing, and operation of that program which you believe if this Congress passed would regain the confidence of those elements of the dairy industry that today don't support it.

I pledge myself to trying to help solve this problem if you all will work in good faith with us to try to do that.

Thank you, Mr. Chairman.

Mr. VOLKMER. Just send a copy to me or to the committee as well.

The gentleman from Minnesota.

Mr. PETERSON. I want to associate myself with the chairman and the ranking member. I think we have a serious problem out there that needs to be addressed. I, too, would like to know what your ideas are about how we can fix this.

Maybe somebody could explain to me about this block voting. How are the producers notified that they have this option? Do you have a specific program, or are you doing more than you used to do so that they understand this? My perception is that they really don't understand this very well. What are you doing to correct that?

Mr. BARR. Mr. Peterson, generally each cooperative handles the representative voting issue in a different way. However, most cooperatives will notify the members through their regular publications that the issue under referendum is coming up. This is not only true in the promotion program, it is true throughout the Federal order system as far as milk and dairy products are concerned.

But they notify the producer through their publications and that the cooperative intends to vote the issue in a certain way. If the member of the cooperative wishes to vote differently, then the cooperative will provide that producer with a ballot. If a ballot is not forthcoming from the cooperative, then the producer could get one through the county ASCS office where they would have to vote anyway.

Mr. PETERSON. But generally this is an article in their newsletter or something like that?

Mr. BARR. Some notification. They don't mail something to them. There is no direct outreach. Or is there?

Ms. CARSON. If I might comment. In the rules for the referendum, it is required that if a co-op does block vote they must provide every producer a ballot to individually vote.

Mr. PETERSON. So they do actually mail this out?

Ms. CARSON. Yes, they do.

Mr. PETERSON. Then why is there this perception that they can't vote?

Ms. CARSON. It is out there and it is right in the referendum rules.

Mr. PETERSON. Maybe I shouldn't take the time of the subcommittee, but somehow or another, it is not working. Whatever you are doing isn't working. We have to do something to change this. I am concerned that if we don't get ahead of this pretty quick we are going to lose the whole thing.

Mr. LOPER. Congressman, I agree with you that there is a lack of understanding out there, but a problem the National Dairy

Board faces has been the criticism you heard that we hired certain individuals to boost the Dairy Board.

Unfortunately, we take the position very carefully and are monitored by USDA to ensure that we don't get into these self-enhancement or self-perpetuating type campaigns. It is really incumbent upon other parts of the industry at this point to notify producers. So we are limited, Congressman.

Mr. PETERSON. I don't care who is limited or whose fault it is. We are beyond that. We have to do something to fix this. I guess I would be interested in all of you giving us some ideas. I think we would all be willing to work on legislation to try to do whatever we have to do to change this. It isn't going to work if we don't get something done with this, at least in my area.

The second thing—I probably should know more about this and I don't—is this whole issue of generic advertising. I see here that you're spending \$60 million to \$70 million on advertising and States and regions are spending more than that.

Have you done studies to figure out whether this generic advertising is doing you any good? Is there any effort being put into that?

I have some questions about—we're just getting eaten alive by Pepsi and Coke. They keep talking about needing to get milk into a situation where it is more easily accessible in the form that these young people want, such as different flavors. In our State, the only place you can find it is at Rudy Boschwitz' Milk House, which he still has at the State Fair. [Laughter.]

It never shows up in the stores. I assume that you are aware of this problem. What is being done to address this?

Ms. CARSON. If I may comment, I think your first question is in terms of whether we are doing anything to evaluate the programs.

By the way in which the dairy bill was written, it does require USDA to do a third party audit, which is an independent audit. I would refer to that just to say it is estimated that out of those audits there is an increase in consumption of 4.6 percent over that which would have occurred without the program.

Mr. PETERSON. Who is doing the audit?

Ms. CARSON. That is done by USDA.

Mr. PETERSON. USDA itself?

Ms. CARSON. By USDA itself, and they also use outside contractors at universities.

Mr. PETERSON. Do they hire advertising agencies, the people that are eating their lunch on the other side?

Ms. CARSON. No, sir.

Mr. PETERSON. Why don't they?

Ms. CARSON. They are economists.

To do the evaluation?

Mr. PETERSON. Right.

Ms. CARSON. It is done on an econometric model of modeling.

Mr. PETERSON. You can tell me that it is 4.6 percent, but again you have a problem here and we have to do something to answer those questions in this area as well.

You are not going to convince any dairy farmers in my area that you are doing a wonderful job because they are not going to survive. You're on the firing line because you're out there. I really

share Mr. Gunderson's concern that if we do not do something here, we are going to lose the thing.

Mr. VOLKMER. Isn't part of this due to the fact of the price of the product at the present time? If we had milk out there at \$14 per hundred, I don't think you would be hearing much of that, would you?

You're agreeing with me, aren't you?

Mr. HALL. Mr. Chairman, I have to disagree with you on that because USDA's figure in 1989 said that it cost me \$15.20 to produce milk. That's what it cost the producer.

Mr. VOLKMER. I'm not asking that. If the milk price were higher, we would have less complaints about the dairy promotion program. Is that correct or incorrect?

Mr. HALL. I would say no.

Mr. PETERSON. Mr. Chairman, my time has expired, but I think we ought to approach this as an opportunity and not as a problem. I think we need to get in the mind set that we have a lot of people in trouble out there. You folks are a lot of the solution to that and we just have to figure out how to make this thing work. All I can tell you is there is one member here who wants to work with you and try to make this thing work and get this thing fixed.

I appreciate the chairman giving me a little extra time here.

Mr. VOLKMER. The gentleman from Texas.

Mr. STENHOLM. Thank you, Mr. Chairman. I have just a couple of observations.

First, my continuing concern, speaking specifically for dairy, the fact that we continue to have members of our cooperatives questioning the leadership of our cooperatives and then expect this committee to solve all the problems that the individual members complain about bothers me, and I know it does all of the people involved in this. When you have 85 percent of the production of a commodity owned and controlled by the people who produce it, and yet you continue to have the complaints, I think it behooves especially the complainers to recognize that perhaps there are some other problems other than the simple ones they talk about quite often.

Also, I associate myself with the chairman's remarks and those of Mr. Gunderson regarding the challenge to the leadership of the dairy industry to be more open. You can't be too open in today's extremely tight margins that we have. We understand that. It is a frustration we in the Congress face on a daily basis.

I say this as one who is contributing to the check-off—beef and cotton, in particular—there is not a question in my mind that it is the best money I am spending. The same is true, I believe, for the dairy industry. I hope you work to fix the problem, to answer the questions, and don't kill the program. The idea, Mr. Hall, that you're going to help yourself by killing this program is based on a very false premise. You need to think about that on your own as you listen and look at all of these entities.

In regard to the question—I certainly concur that we ought to be having imports participate in the promotion of the products within this country. I think this is something that we can pursue. It makes good sense. Other industries are doing the same thing. We

just fought that battle out in cotton and we voted in referendum. It is working and it needs to work. It is just the right thing to do.

The question of brand advertising gets real close to home in a hurry. I was on the original Cotton, Incorporated board when we fought that battle. Cotton producers did not want their money—in this case—selling Manhattan shirts or Van Heusen. It was just downright repulsive to farmers to think that their money was going to go to fund somebody else's profit, but we have gotten over that. I don't think we have to change the law, by the way. I think that is already very doable. It is a matter of opposition of dairy farmers not wanting to do it.

I ask you to take a good look. That is true for other check-offs. What you're after is selling more of whatever it is you're promoting. Generic doesn't do it. You are right. Generic does not do it. But yet you have to educate. This is where our committee should have done a better job over the years.

But you have to look at these things. You are after selling more of your product. We are in a competitive world. Let's face it. You have to do the things that they're doing to be successful. If you don't meet the competition, how in the world are you going to sell the product? Meeting the competition is certainly something that, as a farmer in real life, is pretty difficult for me to understand unless I take time to come to the meetings and get educated and read.

If you requested information in the proper way and don't get it, that is absolutely inexcusable.

The final comment I would make—I have been using lately two examples of what agriculture should and should not do. As we get into this question of food safety and the constant barrage we're under from all of the people that want to eliminate production agriculture—basically the meat industry in particular, but dairy has not escaped this—I use dairy as a positive example. I use the apple industry as a negative example.

When Alar first hit, there was no one out there prepared to step forward and give the apple story. There was no credibility. FDA, USDA—no one was able and the apple industry took a hit.

When Dr. Spock was used by a handful of dissident milk experts that were after another program everyone stepped forward, including the AMA. We had a joint effort saying that this is the most silly thing they had ever heard. How long did it stay in the national headlines? Less than 72 hours. I think it was less than 24 hours. It was a nonstory.

Why? Because some of the money, Mr. Hall, you were spending has been put to good effect. It could have killed the industry just like it killed the apple growers. But some of the money you were spending was out there addressed the issue and it was a nonstory.

Mr. Chairman, what you said a moment ago and the challenge to all the industry is very real. We need to be more satisfying to you, Mr. Hall, and to the thousands of other producers out there. We can't be too open, but by the same token, it is not unrealistic for your leaders to expect you to be a little more open and acknowledging also.

I hope in the spirit of this today that we can find that so that we don't kill the program. It will hurt the dairy industry more than you think. When you look at the recommendations of the budget

cuts that we're going to be facing right now, we're in for some tough times. For the dairy industry to vote out a self-help program at this same time would not be helpful to you. I don't think you will do it. I think we're going to be able to, through this hearing, answer your questions satisfactorily so that the frustrations you have can be addressed with the price, as the chairman said, in another State and another time.

Mr. VOLKMER. I want to thank all the witnesses.

Before I conclude, though, I would like to make one more statement.

It is not just the question of what the Dairy Board has been able to do or not do. It is also a question, Mr. Hall and Mr. Huber, what is life like without it? Have you ever thought about that?

Mr. HUBER. You noticed in my testimony that I made some specific recommendations to fix the program. I never personally have advocated abolition of it. But I think it has to be fixed or I can't be out there in front of the dairy farmers. I can't take the heat anymore.

Mr. VOLKMER. That is just an observation. It is nothing that will directly affect me, but what happens in the future will affect my dairy farmers, and I recognize that. I just hope that we look on both sides of the question and not just one side.

Thank you very much. I appreciate this panel being here.

Our next panel consists of Mr. Albert E. Pope, president, United Egg Producers, Atlanta, Georgia; Mr. John Russo, chairman, American Egg Board, Park Ridge, Illinois; accompanied by: Mr. Lou Raffel, president, American Egg Board, Park Ridge, Illinois.

Gentlemen, your statements will be made a part of the record. You may either summarize or review those statements in full.

We will begin with Mr. Pope.

STATEMENT OF ALBERT E. POPE, PRESIDENT, UNITED EGG PRODUCERS

Mr. POPE. Thank you, Mr. Chairman.

My name is Al Pope, president of United Egg Producers, a cooperative representing 80 percent of the Nation's egg production. I am also president of United Egg Association, which represents 90 percent of the further egg processors.

I am pleased to be here today to provide you with the industry's viewpoint on the egg check-off program.

As you know, today more than ever in this increasingly competitive marketplace, it is imperative to advertise and promote your product and provide the kind of research in the areas of food nutrition and food safety. Additionally, constantly changing consumer preferences and increasing product choices make it harder and harder to maintain that market share. This is especially true for basic agricultural commodities, which do not have the large advertising budget of large food corporations.

The egg industry, through its check-off program, has been able to establish so much more than we could have ever achieved without it. We are a relatively small industry and as such do not have the resources to equip ourselves with the staffs and the professionals that we would like to have under ideal conditions.

Believe me when I tell you that you today are looking at in me 20 percent of the UEP staff and 50 percent of the UEA staff. However, thorough the check-off program, we now have the American Egg Board, an entire entity devoted to the promotion and the advertising of our product, providing the much-needed research our industry needs to keep current in science and nutrition fronts, and keeping the public informed and aware about issues impacting eggs.

From food safety to the diet cholesterol issue, we have been able to reach more people, expand the scope of the debate on the components of a healthy diet, promote the proper cooking and handling of eggs, and much more. Now that the use of further processed pasteurized product has expanded so significantly, UEA and AEB are working closer together to promote these value-added products while of course continuing the traditional promotion of shell eggs.

Through AEB, we also have the nutrition center. Again, this is another organization with the single purpose of assisting egg producers and processors working to promote the positive nutritional characteristics of eggs, reaching out to the public to provide not only consumers but health professionals, the scientific community, and the media with accurate information about eggs.

We could not have achieved all of this on our own. There simply would not be the funds or the resources available to the industry to accomplish what we can through a collective effort of this kind. For instance, AEB funded a study to update USDA's information on the nutritional content of eggs known as handbook VIII. The new research data found that eggs were 22 percent lower in cholesterol than previously reported and also low in saturated fat. The original study had been based on a very small sample size and had not been updated in over 20 years.

On the basis of the study's results, the American Heart Association increased its recommendations on egg yolk consumption from 3 to 4 per week. We were then able to use this positive information in a publicity campaign to educate Americans about the lower cholesterol content of eggs and the change in AHA's recommendations.

In addition, research conducted of professional health professionals at the end of 1992 has demonstrated that the scientific community supports the fact that cholesterol is not the dietary culprit it was once believed to be, and in fact a greater focus has been placed on fats in the role of the U.S. diet.

Again, having the ability as an industry to conduct such research and disseminate it to the public at large is a strong tool. It empowers the industry to help themselves, again, without any Government expense. We feel that check-off programs in general, and the egg check-off program in particular, are excellent examples of the kind of partnerships that can be formed between private industry and the Government, partnerships that work and are not a burden to the taxpayer.

The egg industry has the distinction of being one of the first commodity check-off groups. Unfortunately, we do not have the distinction of being the best funded of such programs. While we have been at it for well over 10 years, rising costs have had a dampening effect on the kinds of things our program can undertake. Television

advertising costs in particular have just simply soared to levels that have greatly limited our involvement.

Despite our modest funding level, AEB has demonstrated superior administrative skills and has consistently supplied us with the strongest programs within our means. The egg industry has demonstrated its strong support for AEB over the years, most recently, voting in a nationwide referendum to eliminate the program refunds. With the confidence of the industry squarely behind AEB, the challenge now becomes to increase our program's funding levels and to find more creative ways to get our messages out to consumers.

One way we can help ourselves accomplish more through AEB is to increase the level of assessments paid under the check-off program. Additionally, in order to successfully compete in the marketplace, we must above all be creative and aggressive. Business-as-usual simply is not good enough to meet both producer and consumer needs and demands.

The egg industry is currently pursuing legislation that will permit us, through a referendum vote, to increase our assessment level up to 30 cents a case. We will probably not reach that level right away, but we recognize the need to work toward a greater level of funding so that we can meet the challenges ahead.

I believe by working together this is indeed possible.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Pope appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you.

Mr. Russo.

STATEMENT OF JOHN RUSSO, CHAIRMAN, AMERICAN EGG BOARD, ACCOMPANIED BY LOU RAFFEL, PRESIDENT

Mr. RUSSO. Thank you, Mr. Chairman.

I am John Russo, chairman of the American Egg Board and executive vice president of Chickadee Farms from Hope Valley, Rhode Island. With me is Mr. Lou Raffel, who is the president and chief staff position of the American Egg Board.

My two brothers and I run a family farm in Rhode Island with approximately 100,000 hens. We sell shell eggs to both the retail groceries and the food service trade. In addition, we process some of our production into hard-boiled eggs which we sell to the food service establishments.

I appreciate the opportunity to provide this subcommittee with a brief overview of American Egg Board's ongoing activities.

The purpose of the American Egg Board, as stated in the Egg Research and Consumer Information Act, is to enable egg producers to establish, finance, and carry out a coordinated program of research, producer, and consumer education, and promotion to improve, maintain, and develop markets for eggs, egg products, spent fowl, and products from spent fowl.

We recognize our responsibilities to conduct programs that are in best interest not only for egg producers but also for the consuming public. We are also aware of the requirements to conform to the regulations and standards established by Congress and the U.S. Department of Agriculture.

AEB began its first advertising program in 1977. In that year, AEB spent approximately \$3.5 million on media advertising. It was mostly television advertising run in a combination of network television and spot commercials in the top 20 markets. There were several independent research studies demonstrating that the campaign was effective.

By 1987, both AEB's refund rate and general inflation had risen substantially making effective consumer advertising difficult. To attempt to develop broad-based support for AEB and reduce the refund rate, AEB eliminated consumer advertising entirely and lowered the assessment from 5 cents per case to 2.5 cents per case.

In 1989, after informal surveys of the industry indicated support for a mandatory program and a return to consumer advertising, the law and the order were amended to remove the refund provision. Subsequently, in 1990 producers ratified the removal of the refund provision. When the assessment became mandatory, the assessment was raised back to the 5 cents per case and AEB returned to consumer advertising.

This time, with a \$3.5 million budget, the most cost-effective target audience was children. Animated television commercials began running on syndicated children's television shows and continued for the first three quarters of 1992.

In 1992, the cost of children's television also began to climb and the board asked that the marketplace be reviewed to determine if children were still the most cost-effective audience for its advertising. Earlier this year, the board decided to conduct a review of advertising agencies to determine if there are better strategies for its advertising dollars. The review will take place this spring and recommendations for advertising strategies will be presented to the board at its meeting in July.

From 1977 to 1982, AEB made grants to leading research scientists totalling nearly \$3 million. We selected a scientific review panel of renowned scientists to help us select important research and objective researchers in the cholesterol area. In 1983, AEB reluctantly eliminated its nutrition research program in order to concentrate declining funds into advertising.

However, in 1984, AEB returned to the nutrition field in a different format. In response to major negative publicity on eggs and cholesterol, AEB established a cholesterol action program. This program had a two-pronged approach. First, AEB funded an egg nutrition center, which is managed under contract by United Egg Producers. The function of the egg nutrition center is to be a source of credible information on egg nutrition for health professionals, media, and others. The center responds to misinformation in the media and conducts information programs to disseminate positive egg nutrition data.

The second part of the cholesterol action program was a proactive public relations campaign designed primarily to inform media of the positive benefits of eggs and to ensure balance in media reports on cholesterol. These two products are interrelated and work closely together. Both are guided by a scientific advisory panel of respected scientists.

In the past few years, the work of the egg nutrition center and the public relations program has been expanded to include edu-

cation and communication on *Salmonella enteritidis* and food safety. Also, research grants to universities have been resumed and from 1991 to 1993 AEB has approved grants of over \$1 million. Universities receiving AEB research grants include Columbia University, the University of Massachusetts, the University of Washington, Tufts University, and the University of Arizona.

As mentioned, food safety has also become a large part of all AEB's current activities, not only in our nutrition program but also in the food service consumer areas. A special food safety education program has been established in the Northeast of the country where the greatest number of *Salmonella* outbreaks associated with eggs have occurred. Almost all the outbreaks have been associated with abuse of the product. By emphasizing food safety, we believe we can help reduce the incidents of outbreaks while Government agencies and other organizations search for ways to eliminate the problem from this food supply.

In addition, all AEB information and education programs conducted in the nutrition and food safety areas are reviewed and are consistent with the information and recommendations issued by USDA and other Federal agencies.

Also, from 1977 through 1983 AEB provided grants to university scientists for the development of new products in egg technology. While some of this technology proved useful, most of the products developed never reached the marketplace. Therefore, in 1984, AEB changed its new product approach to concentrate on communicating with food manufacturers to inform them of the potential for marketing new egg products.

In recognition of the growing importance of food service and the consumption of eggs, AEB began a formal food service program in 1980. Starting with advertising in food service trade publications, the program has grown over the years and now includes newsletters for restaurants and institutional operators, trade show participation, distributor communications, publicity activities, involvement in Government feeding programs for both egg products and the products of spent fowl, and many other projects.

AEB also conducts a strong consumer education program. Included in this area have been newspaper and magazine publicity, development of printed materials, seminars for home economists, educational materials for schools, omelette workshops featuring AEB's Howard Helmer, who has done such demonstration in the past for the House Agriculture Committee.

AEB also provides support, both funding and programming, to State and regional egg promotion organizations to insist on promoting eggs more effectively on a local level. Newsletters, special mailings, annual reports, presentations at industry meetings, board member mailings, and other communications techniques are used to keep producers fully informed about their assessments and how their assessments are being spent.

Our current administrative costs are approximately 3 percent of total expenditures. In general, we receive excellent cooperation from egg producers and handlers in the collection of assessments. I might add at this particular point that over 80 percent of the producers support AEB, and that amounts to over 90 percent of the total production. We believe compliance will improve even more

when a pending regulation is issued imposing a late charge on unpaid balances of 1.5 percent monthly.

Of necessity, this has been an extremely limited overview of AEB's programs and activities. AEB's 1992 annual report is currently being printed. I have a copy with me. This report contains more detailed information on current programs as well as financial report. I will have copies of the completed annual report mailed to each member of the subcommittee within the next 2 weeks.

I am grateful for this opportunity to inform the subcommittee about what AEB has been doing. We are proud of our accomplishments at AEB and believe that the generic promotion continues to be the most effective for the egg industry.

Thank you very much.

[The prepared statement of Mr. Russo appears at the conclusion of the hearing.]

Mr. VOLKMER. I want to thank both of you for your testimony. It is very apparent to me that with the limited amount of funds that you have available you have done a very good job within that.

I noticed that you have no concerns about the cost of USDA's overview. You do not object to those in any way. Is that correct?

Mr. RUSSO. No, we do not, sir.

Mr. VOLKMER. And you do not find the fact that they have to approve any contract burdensome in any way?

Mr. RUSSO. No, not at all. We find them very helpful.

Mr. VOLKMER. And I noticed in the testimony, Mr. Pope, that you're envisioning some possible changes in the legislation for the Promotion Board. Is that correct?

Mr. POPE. Yes, sir.

Mr. VOLKMER. I will be willing as well as members of this subcommittee to work with you on that to see if we can't do something to help that along. But do you agree that any change that may lead to an increase in assessments would have to be supported by the producers?

Mr. POPE. Absolutely. That is part of the provision.

Mr. VOLKMER. I have no further questions. I want to thank you all for being here today. I appreciate your testimony and I look forward to working with you.

Our next panel consists of Mr. Dan Koons, president-elect, National Cattlemen's Association, Shirley, Illinois; Ms. Martha Hanson, chairman, Cattlemen's Beef Promotion and Research Board, Englewood, Colorado; accompanied by: Mr. Monty Reese, president, Cattlemen's Beef Promotion Research Board of Denver; and Mr. Raymond L. Larson, chairman, Beef Industry Council, division of National Livestock Meat Board, Maple Park, Illinois.

Ms. Hanson and gentlemen, your statements will be made a part of the record. You may either review those statements in full or summarize, however you so desire.

We will begin with Mr. Koons.

STATEMENT OF DAN KOONS, PRESIDENT-ELECT, NATIONAL CATTLEMEN'S ASSOCIATION

Mr. KOONS. Mr. Chairman, my name is Dan Koons. I am president-elect of the National Cattlemen's Association and a farmer-feeder from Shirley, Illinois. I am here representing 230,000 cattle

producers affiliated with the National Cattlemen's Association and our State cattle associations and national breed associations.

I am pleased to represent the National Cattlemen's Association at this hearing because NCA has played a major role in the development, passage, and implementation of the beef check-off program. We feel a strong accountability to our constituency, indeed, to all beef producers who pay the check-off dollar, to make sure that the beef check-off program operates properly and to the producer's benefit.

NCA and the 230,000 producer members of its affiliated organizations account for about 70 percent of the total U.S. cattle herd. That's about 70 million head.

There were a couple of unsuccessful attempts to create a national check-off before the current program was passed by Congress in 1985. I think it is important to understand why those earlier efforts failed while the 1985 initiative was successful. We brought the check-off initiative to Washington, DC, we worked with Congress to draft check-off legislation to ensure this would be a program run for producers and by producers.

Those earlier check-off initiatives didn't fail because producers thought a national check-off was a bad idea. Instead, they failed because industry leaders didn't listen carefully enough to producers at the grassroots level in how they wanted the check-off program operated. The 1985 initiative was successful because this time we did listen and we listened very carefully.

From listening to the grassroots, we developed four basic principles that make the current beef check-off program very successful. These four corner posts are:

Everybody pays. We found that producers wanted everyone, including importers, to pay the check-off dollar. That meant a mandatory program.

Two, the producers wanted control of the program. The beef check-off is controlled by beef producers through an independent board, the Beef Promotion and Research Board. So if you ask: Who is accountable for the check-off programs? Beef producers are accountable.

Three, the producers did not want to develop a new bureaucracy. Producers wanted to prevent unnecessary duplication and coordinate all dollars within the industry. To assure this, the Beef Promotion and Research Act requires that all programs be implemented through existing nonprofit beef industry governed organizations.

And four, the producers wanted local control. In 44 States, there are State beef councils which control up to 50 cents of every check-off dollar. The State councils invest those funds in State, national, and international programs in accordance with the act and the order.

I think the strength of these four main principles is evidenced in both the success of the check-off program to date and in the widespread support as received from the agriculture industry.

Clearly, producers believe in the program. In the May 1988 referendum, producers supported continuation of this program with a nearly 80 percent yes vote. I think that kind of support is evidence

of the soundness of the beef check-off program and a recognition of the importance of its purpose.

The importance of the beef industry is clearly stated in the act. The production of beef and beef products plays a significant role in this Nation's economy. Beef and beef products are produced by hundreds of thousands of beef producers and processed by numerous processing entities, and beef and beef products are consumed by millions of people throughout the United States and foreign countries. We accomplished this, Mr. Chairman, by utilizing renewable natural resources such as grass and other forages from land that is generally not suited for crop production.

The beef check-off has adapted and changed as necessary to meet producer and consumer needs. We are continually reviewing the act and the legislative history, the order, and the Cattlemen's Beef Board's official actions and guidelines to be sure that we're all doing things right.

Mr. Chairman, while we are accountable to do things right, we're also accountable to do the right things well. You will hear from the Cattlemen's Beef Board and the Beef Industry Council, about the details of the administration and oversight, foreign and domestic marketing and production, education, public relations, issues management, and more. Several organizations of the beef industry must always be acting together to make the program successful. The beef check-off is working and we say that with a great deal of pride and confidence.

We ask you to consider the following:

The Ward Study, formerly known as the Economic Analysis of Beef Check-off Programs, conducted by Ronald Ward, University of Florida, shows that the rate of return of the check-off has averaged \$5.80 for every check-off dollar collected over the entire life of the program the first quarter of 1987 through the second quarter of 1992, inclusive.

The analysis also shows that the returns to information programs are comparable to returns from promotion and that promotion programs are relatively more effective with information programs in place than they would be in the absence of such programs.

Investors in the check-off continue to express support. Each year a survey is conducted to determine the level of support for the check-off among cattlemen, dairymen, and importers. Every year since the passage of the referendum in 1988, 80 percent or more of the beef producers nationwide have expressed an approval of the check-off. NCA is presently involved in several Beef Board projects and conducts projects which greatly enhance the producer's ability to compete in the consumer marketplace.

Some of the programs NCA conducts include the war on fat. This is a comprehensive effort to substantially reduce the amount of trimmable waste fat being produced by the industry. The beef quality assurance program is helping cattlemen adjust to the new levels of consumer expectations about food safety and go above and beyond the requirements of Government.

The beef issues management program keeps cattlemen informed about the issues that affect the marketing environment for their product: beef. The industry public relations program helps commu-

nicate the facts about beef and the beef industry during a time when the myths would otherwise dominate the headlines.

The national beef quality audit, which was completed in 1992, gives the cattle industry direction for improving both the consistency and economy of beef. It is a move toward implementing the concepts of total quality management in the beef industry.

In summary, Mr. Chairman, the National Cattlemen's Association sees substantial evidence that the beef check-off program is working, that it is benefiting the grassroots producer who pays the dollar.

I thank you for the opportunity to appear here and would be willing to answer questions at the appropriate time.

[The prepared statement of Mr. Koons appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you very much.

Ms. Hanson.

STATEMENT OF MARTHA E. HANSON, CHAIRMAN, CATTLEMEN'S BEEF PROMOTION AND RESEARCH BOARD, ACCOMPANIED BY MONTE REESE, CEO

Ms. HANSON. Mr. Chairman, my name is Mardie Hanson. I am a rancher from Cowdrey, Colorado. I am also chairman of the Cattlemen's Beef Promotion and Research Board, which was established by Congress to administer the Beef Promotion and Research Act and order according to its terms and provisions.

My purpose in appearing before you today is to discuss three basic topics of vital importance to the Nation's beef producers represented by the Beef Board: the issue of accountability for the beef check-off program; the structure and process in place to implement beef promotion and research programs while providing that accountability; and the perceptions that beef producers have about their check-off program.

Perhaps the most important function of the Beef Board is ensuring accountability throughout the entire beef check-off program, accountability not only to Congress through the U.S. Department of Agriculture and your subcommittee, Mr. Chairman, but ultimately to the cattle producer who invests in this program through his check-off dollars. We take that responsibility very, very seriously.

To assure accountability to Congress through USDA, all budgets and individual projects of the Beef Board are submitted to USDA for approval. Further, the contract with the industry organization carrying out each project is approved by USDA before work begins or expenses are incurred on that particular project.

We operate on a cost reimbursement system with each industry organization contracting with the Beef Board. All such costs are supported by appropriate documentation and subject to periodic contract compliance audits. The Beef Board's own administrative costs are limited to no more than 5 percent and annually those costs have remained well below that ceiling.

The Beef Board recognizes also that it has several key responsibilities in implementing the Beef Promotion and Research Act and order. The board must ensure that systems are in place to collect the \$1 per head beef check-off whenever cattle are sold. The board certifies qualified State beef councils as the entity respon-

sible for overseeing the collection function within their States. Once certified by the board, these State beef councils are eligible to retain half of the check-off collected in their States. These funds are then used for beef promotion and research activities as determined by their own producer-controlled State boards.

There are currently qualified State beef councils in 44 of the 50 States. Check-off fees for imported beef are collected directly through the U.S. Customs Service.

It is also the board's responsibility to ensure that each State beef council complies with all aspects of the act and order. To that end, the board has established guidelines to help State beef councils determine the appropriateness of proposed expenditures. In addition, each State beef council must submit to the board an annual marketing plan which outlines expenditures, an audited financial statement which has been examined by an independent certified public accountant, and a certification statement signed by both the State chairman and chief staff executive assuring that all expenditures were consistent with the act, the order, and the board's guidelines.

Periodically, the board audits State beef councils as an additional measure to assure compliance with the act and the order.

The Beef Board establishes and approves its budget on an annual basis. Within that budget, individual projects are considered by an operating committee which meets quarterly. The operating committee contracts with various nonprofit producer-governed beef industry organizations to conduct those projects which have been approved for funding by both the operating committee and USDA.

Although there are several eligible industry organizations who are invited to submit proposals, the major participants are the Beef Industry Council of the National Livestock and Meat Board, the National Cattlemen's Association, and the United States Meat Export Federation, the BIC being the largest in terms of the scope of the programs it coordinates.

The Beef Industry Council fulfills a dual role, both as the major contractor for Beef Board funded programs and the Federation of State Beef Councils. As the Federation of State Beef Councils, the BIC is entitled by the act and order to elect half of the members of the operating committee which makes Beef Board funding decisions. This has been perceived by some entities as a conflict of interest when BIC also comes to that same operating committee with proposals seeking Beef Board funds.

To resolve the issue, the elected officers of both the Beef Board and the Beef Industry Council have adopted an agreement which calls for those operating committee representatives previously elected by the BIC to be directly nominated and elected by State beef councils. This agreement was unanimously approved by members of the Beef Board. A copy of the agreement is included in the materials submitted with our written testimony. Once implemented, this election procedure should resolve the conflict of interest problem.

Other contracting organizations have also conducted programs, but BIC, MEF, and NCA have been the major participants thus far.

The act defines the program areas in which beef check-off funds may be used. Since the inception of our program, we have devoted \$189 million to promotion, \$23.6 million to research, \$29.7 million

to consumer information, \$20.4 million to industry information, \$17.8 million to foreign marketing, and \$9.3 million to producer communications. Lobbying with check-off dollars is specifically prohibited and controls are in place to guard against those contracting organizations which also engage in lobbying activities from using check-off dollars for that purpose.

Mr. Koons talked about the Ward Study and its assessment of the check-off impact on beef demand. We are pleased with such an excellent overall result. However, evaluating projects within the total check-off program helps determine where we can improve effectiveness. During the past year, the Beef Board has placed additional emphasis on measuring individual projects, both for execution and impact. Our latest producer attitude survey indicates that 80 percent of the producers across the country are pleased with their check-off program, an even higher percentage than the yes vote in 1988 at the time of our referendum.

However, producers have the right to request at any time a referendum to determine whether or not the beef check-off program should remain in place. We are not aware of any requests pending at this time.

Included with the written copy of this testimony are additional details about our structure, expenditures, and program results.

In summary, we believe the check-off program is functioning as Congress intended. We believe the program is working well and we have established a comprehensive evaluation system to cause it to function even better in the future. We have controls in place to ensure that no check-off dollars are spent to influence legislation or Government policy, or for any other purpose not consistent with the act and the order. And we believe every evaluation of our program thus far indicates that it has been effective in improving demand for beef and ultimately enhancing profitability for those who invest in the program.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Hanson appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you.

Mr. Larson.

STATEMENT OF RAYMOND L. LARSON, CHAIRMAN, BEEF INDUSTRY COUNCIL, DIVISION OF THE NATIONAL LIVESTOCK MEAT BOARD

Mr. RAYMOND LARSON. Mr. Chairman, my name is Ray Larson. I am a cattle feeder from Maple Park, Illinois. I am chairman of the Beef Industry Council, a division of the National Livestock and Meat Board.

The Meat Board was organized in 1922 as a consumer marketing alliance funded by voluntary livestock producer check-offs and packer investments. Its Beef Industry Council division was formed in 1963 as a federation of State beef councils to coordinate State beef promotion programs and establish a national marketing presence. Today, the Beef Industry Council is a federation of 44 State beef councils and they directly elect 69 producers to represent them on the federation board of directors.

Through the federation, State beef councils give input to national programs of promotion, research, and information and receive assistance in coordinating their market plans with the overall industry plan. We are not a trade association and we have no responsibilities for lobbying or other government relations activities. We exist solely to conduct market development programs of promotion, information, and research.

During my years as a cattle feeder I have seen some radical changes in the beef business and I have seen many of my neighbors forced out of it. Like many of my fellow cattlemen, I understand that changes in the beef industry are directly related to changes in consumer attitudes about our products. To regain the market share we have lost, we have to continue to do research, develop new and better products, and provide information about our products and respond to other consumer needs.

As a cattleman, we can respond to consumer needs best through a national check-off. The Beef Research and Promotion Act built the check-off in a way our industry likes to operate: a partnership. The legislative history, the act, and the order provide the framework for a new partnership of the Beef Board and the existing State and national organizations striving to improve demand for beef. I believe most producers continue to support the check-off because they realize that it is working.

Market research shows that consumers are changing the way they think and feel about beef. As a producer, I can't help but believe that their improved attitudes have played a role of building demand for our product and returning profitability to our industry.

I have very little time now to review program accomplishments. Many are outlined in my written statement, but I would like to give you three examples of the check-off at work through the Beef Industry Council.

First is an example of food safety research. We're all aware of the recent *E-Coli* outbreak in the Northwest. I want to express my deepest regrets to the families touched by the unfortunate incident. All of us in the food industry would like to be able to provide a bacteria-free product. However, no food is bacteria free. A critical control point is proper food handling and cooking.

We have committed to do our part. During the past 3 years we have invested more than \$1 million in check-off dollars in research to address *E-Coli* and we are cooperating with FSIS and all industry segments to find better control procedures to contain this organism and assure a safe and wholesome product to consumers.

One research project led to a technique called organic acid rinse which has been shown to greatly reduce the number of potentially hazardous pathogens. It is still not perfect. It cannot guarantee that the meat is risk free, but it is a step in the right direction.

My second example is an informational partnership between the meat industry and the American Heart Association. It began last fall when AHA used our nutrition strategies brochure and heart healthy beef recipes during its fall food festival in 8,500 retail stores. These same brochures will be used next month during the National Nutrition Month by AHA affiliates to help consumers understand the 10 steps toward better health. This spring we will sponsor AHA's heart ride to raise money for cardiovascular re-

search while helping people understand the role of proper exercise and a balanced diet in the maintenance of good cardiovascular health.

My third example of check-off effectiveness is our "Beef is What's for Dinner" advertising campaign. Designed to end the confusion about how long and how complicated it is to prepare beef. We think our campaign is changing these attitudes. Tracking studies show improvements in attitudes about the ease of preparation, versatility, and convenience. We found intent to serve beef at home has increased by 12 percent during the first few months of our campaign.

In summary, I believe the Beef Promotion and Research Act is working as beef producers envisioned it would. For this reason, the check-off enjoys very strong support across all segments of the industry. The program is also helping American consumers buy, prepare, and enjoy one of their favorite foods.

For these reasons, it is my opinion that the check-off program for beef has accomplished what it was designed to accomplish by Congress and should continue to operate unchanged. I appreciate the opportunity Congress has given through the Beef Promotion and Research Act.

Thank you very much.

[The prepared statement of Mr. Raymond Larson appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you very much.

Mr. Koons, where is Shirley, Illinois?

Mr. KOONS. Central Illinois, sir, just south of Bloomington.

Mr. VOLKMER. Do any of you have comments with regard to whether there is a need for any legislative changes in the Beef Promotion Act?

Ms. HANSON. Not at this time, sir.

Mr. VOLKMER. When were you elected chairman?

Ms. HANSON. December.

Mr. VOLKMER. In reviewing the funding by the board of the program, so that I understand a little better what does happen, the Beef Industry Council—do they come in and make proposals as to what funding should be done for research and what funding should be done for promotion and those types of things?

Ms. HANSON. The Beef Board itself sets its own budget. We have a budget committee in place. We examine the potential that we have from each organization that is eligible to operate programs for us. We also look at the research that we have done that tells us where we need to be investing our dollars as well as where we are getting the best return for our dollars.

Mr. VOLKMER. I understand that. I believe Arthur Anderson's report from 1992 shows that so much went for promotion, research, consumer information, and on down the line. But when you analyze that, a good part of that ended up going to the Beef Industry Council, the National Cattlemen's Association, and the United States Meat Export Federation. You don't just give them that money to go out and do what they want with it, do you?

Ms. HANSON. No, sir.

Mr. VOLKMER. Tell me what you do. That is what I am asking.

Ms. HANSON. The operating committee of the Beef Board looks at individual projects. What we do when we set our budget is—

Mr. VOLKMER. How are those projects created? Where are the ideas coming from for those projects?

Ms. HANSON. The ideas for the specific projects come from their possible contractors. For instance, the Beef Board will say that we believe that we have research needs that should cost us x number of dollars. However, the Beef Industry Council has to come in and project-by-project say, "These are the needs you have indicated to us that you would like to fulfill through research. These are the specific research projects that we think we need to conduct for you in order to meet the needs that you have indicated to us that you have."

So it is a very careful project-by-project analysis. Does that project in fact offer us the potential to fulfill the need that we feel we have as an industry?

Mr. VOLKMER. Do some of those projects also have their beginning within the board itself sometimes? Do they come up with the idea that we need to be doing this? And then they contact one of the contractors to see if they will carry it out? Has that ever happened?

Ms. HANSON. Within the structure of the Beef Board, we have various committees which examine these needs.

Mr. VOLKMER. I understand that.

Ms. HANSON. And these committees will indicate to potential contractors what we think needs to happen and ask them to make that happen for us.

Mr. VOLKMER. When the individual contractor decides—let's assume that it is a promotional. Do they come in with a set program and every set out?

Ms. HANSON. They have to be very specific.

Mr. VOLKMER. I am not saying there is any undue influence. Not everyone who belongs to the Beef Industry Council is also a member and producer sending in money to the board because you have industry people on the Beef Industry Council. Is that correct?

Mr. RAYMOND LARSON. There are some industry people, yes, such as packers.

Mr. VOLKMER. And they are not necessarily producers. They could be or may not be.

Mr. RAYMOND LARSON. But there is a board of 69 producers.

Mr. VOLKMER. In the history of the few years that this has actually been in existence, do you know if there ever was a proposal by the Beef Industry Council to the Promotion Board that was ever turned down?

Mr. RAYMOND LARSON. Yes, there have been projects turned down by the Beef Board. They come before the operating committee and they can be turned down at that level.

Mr. VOLKMER. You're not only audited and have an audit by Arthur Anderson, but you have the USDA doing their supervisory functions.

Ms. Hanson, is that supervision hampering your operations to any extent?

Ms. HANSON. No, sir. We consider that a very positive relationship.

Mr. VOLKMER. It is not a burdensome one?

Ms. HANSON. No, sir.

Mr. VOLKMER. You do not object to the amount of funds that USDA is reimbursed for as a result of that?

Ms. HANSON. No, sir.

Mr. VOLKMER. You all are continuing to do a very good job. You heard earlier what happened on the dairy and what is going through the dairy. Let's keep the beef prices up, if you don't mind. I have a few beef producers in Missouri, too. We like to keep those prices up.

Thank you very much. I appreciate your being here this morning.

We will go ahead and finish up and work right through noon and everybody can have their lunch after we have our final panel.

Mr. Karl Johnson, president-elect, National Pork Producers Council, Mankato, Minnesota; Mr. James S. McKee, president, National Pork Board, Attica, Indiana; accompanied by Mr. Ray Hanks, member, National Pork Board; and Mr. Larry D. Larson, chairman, Pork Industry Group, division of the National Livestock and Meat Board, Sargeant, Minnesota.

Gentlemen, your statements will be made a part of the record. You may either review that statement in full or you may summarize, however you so desire.

We will begin with Mr. Johnson.

STATEMENT OF KARL JOHNSON, PRESIDENT-ELECT, NATIONAL PORK PRODUCERS COUNCIL

Mr. JOHNSON. Thank you, Mr. Chairman.

My name is Karl Johnson and I am a producer from Mankato, Minnesota. My brother and I operate a 370 sow farrow-to-finish operation there. I have also been involved with the formation of the check-off program and was cochairman of the producer task force which coordinated the referendum.

I would like to thank you, Mr. Chairman, for the work you put in in passing that Pork Act in 1985 and also for your leadership here today in this hearing process.

The National Pork Board has contracted with NPPC to carry out various check-off and other programs. Specifically, we conduct programs in the areas of consumer advertising, promotion, retail merchandising, product improvement, product technology, food service, consumer affairs, and foreign market development.

In 1986, NPPC initiated the pork industry's landmark check-off funded promotion program. Pork: The Other White Meat. The program, which was designed to change longstanding and generally negative consumer attitudes about pork has exceeded all expectations.

In addition, NPPC's regional retail merchandisers work one-on-one with retailers on promotion and cooperative advertising efforts throughout the year. More than 20,000 retailers are now participating in NPPC's annual promotion efforts. I would like to submit for the record a set of letters we have received from retailers and others showing that the check-off funded promotions are increasing sales of U.S. pork as well as providing helpful nutrition information to the public.

Pork usage by the giant food service segment of the industry continues to grow as a percent of total pork production and now stands at nearly 53 percent. A great deal of credit for that increase is due to efforts of our food service personnel. We are also targeting the rapidly growing deli frozen food section of the retail market.

Check-off funded production research in areas such as disease prevention, genetics, animal care, environmental management, and market technology all play a key role in the producer's ability to deliver a high quality product to the consumer. Check-off funded research now underway involves such things as nutrient management, water quality, and order problems. The results of such research will help pork producers better manage environmental concerns.

We have worked with scientists to develop an environmental quality in swine product handbook as well as a swine care handbook. A landmark genetics evaluation program is also now underway.

NPPC in association with the Pork Board is currently conducting a pork quality audit. The audit is a thorough examination of all major segments of the pork chain. We are exploring consumer needs and possible quality problems. The resulting information will be integrated in the industry's planning process.

Our goal is to make the United States an exporter of pork. We are rapidly nearing attainment of that goal. Last year, U.S. pork exports were about 56 percent in volume while imports were down 17.5 percent. That added about \$1.50 per hundredweight to U.S. cash hog prices.

We are verifying wholesomeness of our product to domestic and foreign consumers through the pork check-off funded pork quality assurance program. More than 22,000 pork producers producing more than half of our annual production are participating in this program.

In association with the U.S. Meat Export Federation, we are conducting a number of foreign market development initiatives in places like Japan, Korea, Mexico, the Caribbean, European Community, and Russia in the last year or so. Such initiatives emphasize that the United States is a reliable supplier of high quality, safe, and wholesome pork products.

We believe the value of all programs I have mentioned are evident by the results. During the last year, the U.S. pork industry has attained a new plateau. Historically, we have produced 83 million to 87 million head of hogs per year. However, in 1992 we produced an all time record of 17.2 billion pounds of pork from 95 million head of hogs. More importantly, this expanded level was produced and marketed at a profit for most of the Nation's pork producers. We believe that our modest profit margins, even with this growth in our industry, is a reflection of the pork check-off.

We have worked hard to make sure that all our check-off funded efforts are in the best interests of American pork producers and that producers with operations of all sizes benefit. In return, they are backing the pork check-off. A national survey just completed by the Gallup organization last week shows that 91 percent of pork producers believe that the check-off has benefited the pork indus-

try. But possibly more important, 76 percent of them say that it is a benefit to them personally.

Let me conclude with two points. First, pork producers are supporting the pork check-off and I believe the support comes from the fact that it is a highly successful and effective program. Second, this program directly benefits consumers without being a cost to them or the Federal Government.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Johnson appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you very much, Mr. Johnson.

Mr. McKee.

STATEMENT OF JAMES S. McKEE, PRESIDENT, NATIONAL PORK BOARD, ACCOMPANIED BY RAY HANKES, VICE PRESIDENT

Mr. McKEE. Thank you, Mr. Chairman.

My name is Jim McKee. I am president of the National Pork Board. My family and I operate a farm near Attica, Indiana. We have a 72-sow seedstock operation. We also farm approximately 800 acres of corn, soybeans, and wheat. I was elected to the position of National Pork Board as president in 1992. Prior to that I served as the board's vice president and chairman of the audit committee. I have served on the Pork Board since its inception in 1986.

With me today is Ray Hanks of Fairbury, Illinois, the vice president of the Pork Board. Ray and his family run a 300 sow farrow-to-finish operation and an extensive farming operation, including corn and soybeans.

We appreciate the opportunity to represent the Pork Board and America's pork producers at this subcommittee hearing. The Members of Congress certainly can share in the success of our efforts because it was the Congress that created the Pork Act and thus made the check-off possible.

The Pork Act is a prime example of the benefits that can be derived from a self-help program funded by the Nation's pork producers and importers at no cost to taxpayers or the Federal Government.

The National Pork Board was established as a result of the Pork Promotion, Research, and Consumer Information Act of 1985. The 15 board members are appointed by the Secretary of Agriculture from nominees submitted by a delegate body representing the Nation's pork producers and importers. By law, the board must include producers from at least 12 States.

The board is charged with the collection, administration, and distribution of check-off funds as well as the accountability for funded programs which by law are in the specific areas of promotion, research, and consumer information.

The Pork Board has two major contractors. You just heard from one previously, the National Pork Producers Council. The Pork Council has the responsibility for conducting check-off programs in the areas of consumer advertising, promotion, retail merchandising, product improvement/production technology, food service, consumer affairs, and foreign market development. The National

Pork Producers Council further contracts with the United States Meat Export Federation to do specific foreign promotions.

Our second contractor the Pork Board has is the National Live-stock and Meat Board's Pork Industry Group. It conducts check-off funded programs in the areas of consumer information, human nutrition, and product research, and also youth education.

As you heard from Karl, the pork industry strongly supports the pork check-off programs with the numbers that he gave you. This is an indication that we have across-the-board support for the pork check-off from both pork producers and importers and we are proud of those figures that we just gave to you this morning.

In fiscal year 1993, 67 percent of the total check-off funding is directed toward industry promotion programs, 17 percent is funding consumer information programs, while research and education efforts are receiving 16 percent of the check-off budget. Of the total check-off dollars, 21 percent are returned to State pork producer associations who direct its use for promotion, consumer information, and research projects in their respective States.

Consumer demand for pork has increased on an average of 0.4 percent annually since the legislative check-off started in 1986. That is a 2.3 percent increase in consumer demand over the entire period. Experts tell us that every 1 percent improvement in consumer demand means \$200 million in pork producers' profits. That is a dramatic turnaround from pre-Pork Act days when during the years between 1980 and 1985 we were losing 3.6 percent in consumer demand each year.

That 2.3 percent increase translates into a nearly \$500 million positive impact on pork producers' bottom line with an investment of \$175 million over the 6-year period. Much of that income to producers occurred during an extended interval of a sluggish domestic economy and a large available supply of competing meats and poultry.

Here is another way to look at the check-off's benefit to producers. If consumer demand was at the same level in 1992 that it was in 1980 to 1985 time period, hogs that producers marketed last year would have sold for approximately \$14 per hundredweight less than they actually did. That would be \$3.33 billion less money in producers' pockets than the \$10.3 billion they actually did receive in 1992.

The National Pork Board maintains an arm's length business relationship with its contractors. The board is in charge of the decisionmaking processes for programs and funding. We closely monitor the implementation and effectiveness of check-off programs that our contractors are conducting.

The National Pork Board has reviewed with our contractors the methods by which they utilize contracted check-off dollars for administrative costs. While the Pork Board does not have a formal cap on such costs, we work very hard to minimize them and regularly monitor our contractors to make sure they are adhering to our instructions.

We estimate that the administrative expenses of the Pork Board for the check-off is currently running 2.25 percent, which we think is very reasonable. This is due in part to the fact that we only have

a staff of two. We utilize existing industry contractors, thereby avoiding duplication of administrative staff.

On behalf of the National Pork Board, I again thank you for this opportunity to review the pork promotion, research, and consumer information programs with this subcommittee. Mr. Hanks and I would be pleased to answer any questions you might have following our presentation. We would be glad to furnish any additional information in writing that you would like as well.

[The prepared statement of Mr. McKee appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you very much, Mr. McKee.

Mr. Larson.

STATEMENT OF LARRY LARSON, CHAIRMAN, PORK INDUSTRY GROUP, DIVISION OF THE NATIONAL LIVESTOCK AND MEAT BOARD

Mr. LARRY LARSON. Thank you, Mr. Chairman.

My name is Larry Larson, a pork producer from Sargeant, Minnesota and current chairman of the Pork Industry Group, a division of the National Livestock and Meat Board. The Meat Board offers the mechanism for pork to combine efforts with beef and lamb when it makes marketing sense for pork to do so.

Funding for the Pork Industry Group comes primarily through contracts with the National Pork Board, including check-off investments from producers in 45 States. Additional funding is obtained through voluntary investments from meat packers and processors. The 1993 budget of the Pork Industry Group is \$4.3 million, \$3.5 million of which is check-off.

The National Pork Board contracts with the Pork Industry Group in three areas: Research, consumer information, and youth education. While these programs are funded by producers and therefore must benefit them, they also are a benefit to consumers by providing accurate, science-based information. The research area is twofold. It investigates human nutrition topics related to pork and it explores new product technologies.

As an example, food safety has been a top concern of the pork industry. In November of 1992 a check-off research project reached a successful conclusion when the USDA approved the use of a mild organic solution to reduce bacteria on carcasses.

Probably the most significant nutrition project ever conducted by the pork industry is the pork market basket study released at a press conference during the 1990 American Dietetic Association annual convention. This national study conducted by the University of Wisconsin, Madison, found that pork was 31 percent leaner than reported in the USDA's 1983 data. This study was the foundation for the USDA's new pork data.

In the area of consumer information programs, they are funded by producers to reach thought leaders and through them the consumer. Outreach programs to dietitians funded by the check-off have made a measurable impact. A recent Gallup Poll study found that 28 percent of the dietitians, more than 1 in 4, recommend pork more often now than they did as compared to 2 years ago.

When it comes to credible nutrition information, 83 percent of consumers say that physicians are the best source. Yet a Pork In-

dustry Group physician attitude study showed that only 29 percent perceive pork as being part of a heart-healthy diet. Check-off funds have enabled the development of a physician continuing medical education program that aired on American medical television last fall and the Pork Industry Group is now undertaking a most extensive physician education program in the industry's history to tell the new lean pork story.

Alliances between health care organizations and the pork check-off offer benefits to the organizations, pork producers, and consumers. Partnerships have taken place with American Heart Association, American Dietetic Association, American Academy of Family Physicians, Society for Nutrition Education, American Medical Association, and the American Academy of Pediatricians.

Education is the third area in which the Pork Industry Group conducts programs for the National Pork Board. This involves efforts to give an accurate balanced message to future consumers about nutrition, pork, and agriculture. Reach of just the teacher kits requested in 1992 is 2.5 million school students, not counting the kits still in use from previous years. These materials, including the poster on the new USDA food guide pyramid, offer teachers timely, factual, and educational information at no or very little cost.

I would like to conclude by sharing with you four points that the Pork Industry Group adheres to in its check-off programs to benefit the industry and consumers. Check-off research will play a vital role in establishing science-based information for use in consumer information and education programs. We base programs on credible scientific information. We do and will make every effort to maximize the effectiveness of producer check-off dollars and packer processor voluntary investments.

This includes partnering dollars with beef, lamb, and check-off funds when it benefits the pork industry to do so. We do and will coordinate marketing programs with other pork check-off contractors to increase synergy between areas of work and avoid unproductive duplication.

Thank you for this opportunity to share with you the Pork Industry Group's role as a contractor of the National Pork Board. The intent of this act is to increase demand for pork. It is working. It is benefiting consumers and pork producers without cost to the taxpayer.

Thank you.

[The prepared statement of Mr. Larry Larson appears at the conclusion of the hearing.]

Mr. VOLKMER. Thank you, Mr. Larson.

Mr. Johnson, I can remember those days, too. Thank you for your help and others that worked those long hours on that. There was some trepidation about whether we were going to get it done or not.

The presentation that the Beef Promotion and Research Board gave to us—I would like to know if it would be possible—this actually shows the contractors over the years since its inception and shows where the money has gone to the various contractors. You don't have to do it today, but I think you can get this information together without too much difficulty.

Mr. MCKEE. Sure.

Mr. VOLKMER. Also, they pointed out that there was an appearance of conflict between the Beef Industry Council and the board itself. They have clarified that.

We have a similar situation. How many members of the Beef Promotion Board are also members of the Pork Industry Council?

Mr. MCKEE. Basically, the National Pork Producers Council doesn't have "membership". It is an affiliation of federated State pork producer associations. I couldn't give you a number but I would say that a good number of those are members of their local or county pork producer associations and they will also be a member of their State pork producer associations.

Mr. VOLKMER. I am not saying that necessarily. I recognize that and I recognize that these are all pork producers.

Mr. JOHNSON. Mr. Chairman, there are no members of the Pork Board who are serving in any capacity with the NPPC. There is no duplication.

Mr. VOLKMER. Somewhere along the line there is sure to be some, wouldn't there be? Couldn't there be?

Mr. JOHNSON. There could be, yes. I think at one time in the past there was a member who was a member of the Pork Board and also served as a director of the National Pork Producers Council, but currently, no.

Mr. VOLKMER. On any of the committees that you have within the Pork Promotion Board, does the council itself have automatic recognition in the membership of that committee?

Mr. MCKEE. No, it does not.

Mr. VOLKMER. So you don't have that same conflict that the beef people have?

Mr. MCKEE. No, we think we are free from conflict.

Mr. VOLKMER. What are you doing about—I don't know how much more lean we can get. Are we still working at it?

Mr. MCKEE. Absolutely. Our industry focuses very narrowly. Our goal is to stimulate increased demand for U.S. pork and pork products, both on a domestic basis and a foreign basis. To do that, we have to fill our customers/consumers needs for the configuration and the form of that product. That means that it has to be leaner. We are continuing to work on that through the various programs the Pork Board is implementing through the National Pork Producers Council and Pork Industry Group.

Mr. JOHNSON. Mr. Chairman, if I might add to that, a couple of projects that the National Pork Producers Council has in place right now are designed to answer the question that you pose. First is the genetics evaluation program we have ongoing to see what kind of genetics do produce the best market hog. Also our pork quality audit, which is going to go to the consumer and see what the product they actually get is, and then to go back to see where in the chain it is getting messed up. If we would have a product that was too lean or not lean enough, we would want to know that so that the producer can adjust his production and then we can adjust the transportation, the processing, and everything that goes along with that product.

Mr. VOLKMER. It is very simple for me to envision—and I am not a producer, so I want you to know where this question is coming

from—I know where the hams come from. I know we have no worry about getting rid of hams, right? Where do most of the shoulders go? I know where they are going in Missouri, I was just wondering why you're not promoting something worth doing.

Mr. HANKES. The shoulders go into processed products and a lot of the barbecue products that are becoming more and more popular. With improved and increased technology in the processing field, it is a lot easier to do muscle separation and things of that nature and to actually get that shoulder product into a boneless where then it is very, very acceptable to consumers and we can do a lot with it.

Mr. VOLKMER. Don't take that bone out of that pork steak. I have been to a lot of places in this country, and I go to places even with pork producers and I find that they don't know what a barbecued pork steak is.

Do you have supervision from USDA?

Mr. MCKEE. Absolutely, yes.

Mr. VOLKMER. Is that in any way burdensome?

Mr. MCKEE. We feel that we have a good working relationship with the USDA, but we also feel that the pork producers and importers of this country have the basic responsibility for prioritizing how they want their check-off dollars allocated against programs.

Mr. VOLKMER. In other words, the costs that USDA incurs in auditing and reviewing and everything is not burdensome on the program at all?

Mr. MCKEE. Not at this point, but we expect the USDA to be just like individual pork producers and importers. We expect them to be as efficient and effective as they possibly can in those cost areas.

Mr. VOLKMER. Does anybody want to venture a guess as to what the pork prices are? Where would we be if we didn't have the Canadian? Does anybody have an idea?

Mr. HANKES. It would be about \$2 per hundredweight less. That is just a very rough guess. But the pork prices right now, as you know, Mr. Chairman, are much higher than anybody anticipated.

Mr. VOLKMER. I have seen projections you're going to be at \$40.

Mr. HANKES. We got \$47.88 last week, which is a big surprise. So we think the program is working.

Without the program, as Jim indicated in his figures, we might be \$14 per hundredweight less than we are right now.

Mr. VOLKMER. That takes me to \$33. I don't have many pork producers that can last past \$38. So I don't think it ever gets to a \$33.

Mr. HANKES. That is exactly the point.

Mr. VOLKMER. I would just lose a bunch of farmers.

Mr. HANKES. That is exactly the issue. We can't let it happen.

The other issue is as Karl indicated. We are now producing record numbers of hogs in this country and still doing it at a profit.

Mr. VOLKMER. Plus the imports.

Mr. HANKES. Right. So that means that our programs are working very well.

Mr. VOLKMER. I agree.

Thank you very much. I appreciate your testimony here today and look forward to working with you for the continuation.

With that, the subcommittee is adjourned.

[Whereupon, at 12:55 p.m., the subcommittee was adjourned, to reconvene, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Statement of Kenneth C. Clayton, Acting Assistant Secretary
Marketing and Inspection Services
United States Department of Agriculture
before the Subcommittee on Livestock
Committee on Agriculture
U.S. House of Representatives

February 24, 1993

Mr. Chairman and Members of the Committee:

We appreciate this opportunity to appear before your Committee to discuss the Department's oversight of commodity research and promotion programs for dairy, beef, pork, and eggs. Accompanying me today are representatives of the Agricultural Marketing Service who have responsibility for the administration and oversight of these programs; Will Blanchard, Director of Dairy Division (dairy program); Paul Fuller, Director of Livestock and Seed Division (beef and pork programs); and Michael Holbrook, Director of the Poultry Division (egg program).

My testimony will focus on the scope of Federal and State commodity research and promotion efforts, the evolving changes that have occurred in these types of programs during the last decade, and the Department's role in providing oversight in the administration of commodity research and promotion programs. Exhibits I through IV provide, by program, a summary of the provisions, implementation, expenditures for fiscal years 1988-1992, enforcement actions, and major issues which are currently pending before the respective commodity boards of the Department.

Scope of Federal and State Commodity
Research and Promotion Efforts

There are today over 350 Federal- and State-legislated promotional programs covering over 80 farm commodities. These industry self-help initiatives collectively are yielding in excess of \$530 million annually to help U.S. agricultural producers improve their competitive position in both domestic and foreign markets. A study, released by the Department's Economic Research Service in July 1989, indicates that 90 percent of all U.S. producers contribute money to farm commodity promotion and market development either through State- or federally-legislated programs.

About 80 percent of the total funds generated for farm commodity research and promotion programs in this country are collected pursuant to federally-authorized legislation and administered by commodity boards for national, state and regional programs.

The dairy program is by far the largest, with total collections exceeding \$200 million annually, followed by beef and pork, which have annual collections exceeding \$78 million and \$38 million, respectively.

Evolution of Commodity Research and Promotion Programs

Commodity promotion in this country dates back to over a half century ago when the Florida State legislature approved legislation for citrus promotion.

Federal involvement in research and promotion programs began in the mid-1950's with the passage of the National Wool Act of 1954. It was not until the mid-1960's, however, that the first of these programs -- the Cotton Research and Promotion Act of 1966 -- was enacted in the form that exists today, with free-standing commodity-specific legislation.

Research and promotion authorities were enacted for the potato and egg industries in the early 1970's; and, in the 1980's, Congress added dairy in 1983, honey in 1984, and beef, pork, and watermelons were enacted as part of the 1985 farm bill legislation. The 1990 farm bill added new program authority for soybeans, limes, mushrooms, pecans, and fluid milk. These national programs, some of which are yet to be implemented, will provide for assessment collections exceeding \$400 million annually. This amount has increased almost tenfold since 1982 when collections for national programs were at a level of \$45 million annually.

Prior to 1983, most commodity research and promotion programs had compulsory pre-program referenda which required approval by a two-thirds majority of those affected. Producers paying assessments were entitled to refunds on demand if they did not support the program and information regarding refunds was kept confidential.

Beginning in the mid-1980's, however, with enactment of the dairy, beef, and pork programs, certain traditional features were modified or eliminated as new research and promotion legislation

cleared the Congress. Included among these changes were elimination of the refund provision, implementation without an upfront referendum, and a reduction in the required two-thirds vote for approval.

The Dairy Promotion Program, enacted as part of the Dairy and Tobacco Adjustment Act of 1983, was the first of these programs to be implemented with a delayed referendum. In accordance with the Act, the referendum was conducted in August 1985, well after a staff and active national advertising program were in place. The statute was also the first of its type to not include a refund provision. Another unique feature of this legislation is the requirement for an annual report to Congress which includes an independent analysis of the effectiveness of the program.

The 1985 farm bill contained authorities for both beef and pork which emulated the delayed referendum procedure established in the dairy program. Beef producers voted in a referendum to continue their program 22 months after its initiation; pork producers passed their referendum 24 months after the program had been put in effect.

The precedent for referendum approval by majority vote had been established in the 1978 Amendments to the Beef Research and Information Act. The majority vote provision subsequently was made part of the legislation governing the dairy and pork programs and other programs have subsequently moved in this same

direction; and in 1989 the Department altered its policy to say a simple majority vote is sufficient.

The egg program has since followed in the footsteps of the dairy, beef, and pork programs, and late in the 100th Congress a "no refund" provision was enacted with a delayed referendum added to its authorizing legislation.

The beef and pork programs, unlike the dairy and egg programs, also contain authority to assess imports. As you are aware, Mr. Chairman, the authority to assess imports has been added to several programs.

Oversight Issues

A variety of challenges have arisen in implementing these programs, thus affecting AMS' oversight role and policies. A couple of areas I would highlight for the Committee are issues surrounding comparative advertising and relationships between commodity boards and trade associations.

In the area of comparative advertising, we have discouraged comparative advertising to avoid the possibility of antagonism or negative advertising between commodity groups and unwarranted claims against competing products are prohibited.

An area of increasing concern for AMS as the numbers of these types of programs continue to grow is the relationship which has evolved between the commodity boards and trade associations. Commodity boards are prohibited from using funds collected under the promotion programs to influence governmental policy or action. However, in some industries a trade

association involved in lobbying may also be permitted to carry out promotion activities on behalf of the federally-sanctioned program.

Each of the authorizing statutes for these Federal programs contains a prohibition on the use of assessment funds collected for purposes of influencing governmental action or policy, except in recommending amendments to the order. The Department believes very strongly in maintaining the integrity of the use of assessment funds and limiting the use of such funds to those purposes for which the Act(s) are intended, namely, promotion, research, and education. To allow the use of assessments for activities that are clearly outside the scope of the Act(s) represents both a misuse and abuse of such funds.

We have insisted on strict safeguards and good accounting procedures to ensure full accountability on the use of checkoff funds by any trade/producer organizations funded wholly or in part by a particular Board or contractors to the Boards

However, the Department urges the Committee to provide its continuing support to these principles to help assure the integrity of commodity research and promotion programs.

Legislative Guidelines for
Commodity Research and Promotion Programs

While provisions of existing commodity research and promotion programs vary considerably from one industry to another, it remains the Department's position that when research, promotion, and education programs are enacted by Congress, the

long-run interests of the industry and general public are best served when such legislation contains these features:

- national in scope representing the collective efforts of industry members nationwide;
- implemented through either an upfront referendum by a majority of qualified persons voting; or if implemented by delayed referendum, provision for refunds (either through direct monthly refunds or escrow) prior to issuance of the final order;
- opportunity for industry groups to reaffirm their support for these programs if requested by at least 10 percent of qualified persons;
- prompt refunds where applicable and confidentiality of refund information so as not to readily identify individual persons or firms;
- appointment by the Secretary of board members from industry nominations;
- for programs that assess imports, provision for equitable treatment of domestic and imported commodities, importer representation on the boards and in referenda, and compliance with international trade agreements;
- prohibition on the use of assessment funds for false or misleading advertisement;

- prohibition on the use of assessment funds to influence legislation or governmental policy or action, except in recommending to the Secretary amendments to the order;
- direct enforcement authority by the Secretary, including the imposition of civil penalties and cease and desist authority;
- full reimbursement to the Department from date of petition for an order for costs incurred in administering the program, including startup costs, salaries of Department personnel, and the cost of conducting referenda;
- authority for the Secretary to suspend or terminate a program which the Secretary determines does not carry out the policy of the authorizing statute.

Departmental Oversight of Commodity
Promotion and Research Activities

The Department plays an active role in the oversight of federally-sanctioned commodity promotion and research programs to assure that they are administered by the boards in accordance with the authorizing legislation and order. This does not mean, however, Mr. Chairman, that we are in the business of micro-managing these programs. We approve budgets and workplans of the boards, and Department staff is in regular attendance at all meetings of the boards and committees. This ongoing and active oversight helps assure that industry-generated funds are expended for the purposes intended. Each research and promotion

program reimburses the Department for the cost of overseeing these programs.

I. Budgets

For the submission of proposed programs and budgets, we seek information as to the objectives and strategy in each major program area (research, advertising, etc), including reasons for significant changes from the preceding budget period. We ask for anticipated revenues, and anticipated refunds if applicable, proposed expenditures by major program areas, and staff and administrative expense breakdowns. All expenditures must be in line with a programs's legislative objectives and intent.

We approve amendments or additions to approved budgets, including shifting of program funds from one major area to another, unless a board has authority in its governing bylaws to approve such shifts. And, finally, we assure that funds are fully accounted for and expenditures made in accordance with USDA approved contracts or agreements.

II. Financial and Program Progress Reports

We monitor the board's financial status through the submission of financial statements by accounting period which reflect expenditures by reporting period, year-to-date expenditures and unexpended funds.

In those instances where refunds are applicable, we monitor monthly collections, the number of refund requests, and total assessments refunded. At year's end, the boards prepare annual

reports which outline progress on each area of their respective programs.

III. Administration

A. Legal Counsel

The Department's Office of General Counsel (OGC), provides all legal counsel to the boards, except as may be provided for in certain very limited situations under a Memorandum of Understanding between a board and OGC. Each research and promotion program is required to reimburse the Department.

B. Investments of Funds

The Department oversees the investments of the respective boards to assure that any investments made are of a risk-free, short-term nature and in interest-bearing accounts. In the absence of collateral, any accounts to be established must be at financial institutions insured by FDIC or FSLIC and for each account to be less than \$100,000. We require that investments exceeding the \$100,000 coverage level must be fully collateralized by the financial institution.

It is also departmental policy that assessment funds, or funds generated through the research and promotion programs, are not to be commingled with other funds.

C. Audits

The statutory authorities for the various commodity research and promotion programs provide authority for an annual financial audit. These annual audits must address whether internal

controls met accounting standards. We strongly encourage that audits address whether or not the funds were used for lobbying activities, if our investment policy was adhered to, if internal controls met accounting standards, and if funds used for program expenses were approved by the Department.

D. Bylaws and Meetings

Bylaws and policy statements governing the respective boards must be approved by the Department to ensure adequate coverage of responsibilities, meeting procedures, and related activities. It is also our policy to be notified of all meetings so that we may attend to stay apprised of board activities.

E. Compliance

The respective boards are responsible for promptly identifying violations and violators and for securing compliance with rules and regulations wherever possible. In those instances where a board is unable to achieve compliance, the case is referred to the appropriate program division of the Agricultural Marketing Service. When all efforts are exhausted at the agency level, the case is referred to the OGC for appropriate action.

Conclusion

Mr. Chairman, through these types of efforts, and through ongoing communication with the boards, the Department seeks to provide oversight of the various commodity research and promotion programs. We seek to ensure full accountability and integrity of

the use of funds collected by the various boards and to ensure that the programs are administered in accordance with the Act(s).

This concludes my statement. My associates and I will be glad to respond to any questions the Committee may have.

(Attachments follow:)

Attachments:
Exhibits I through IV

EXHIBIT I

NATIONAL DAIRY PROMOTION PROGRAM

AUTHORIZING STATUTE: Dairy and Tobacco Adjustment Act of 1983 (Public Law 98-180-November 29, 1983).

SUMMARY OF PROVISIONS: The National Dairy Promotion and Research Program was established by the Act as part of a comprehensive strategy to reduce milk supplies and increase consumption of milk and dairy products. The program is administered by a Board of 36 dairy farmers appointed by the Secretary of Agriculture. Board members hold staggered 3-year terms and represent one of 13 geographic regions. The number of Board members from each region is determined by the volume of milk production from each region, and each member represents an approximately equal volume of milk.

The program is financed by a mandatory 15-cent per hundredweight assessment of all milk marketed commercially by dairy farmers in the contiguous 48 States. Producers can receive a credit of up to 10 cents per hundredweight for payments made to qualified State or regional dairy product promotion or nutrition education programs.

The Act required the Secretary to conduct a referendum among producers within the 60-day period immediately preceding September 30, 1985, to determine whether a majority of producers who voted favored continuation of the Order. The Act also requires that any future referenda be held upon the request of 10 percent or more of the affected producers or at any time the Secretary so chooses.

The Act requires the Department to submit a report to Congress by July 1 of each year. The report is to describe the activities conducted under the program and account for the receipt and disbursement of all funds received by the Board. It also is to include an independent analysis of the effectiveness of the program.

IMPLEMENTATION: The Dairy Promotion and Research Order was issued on March 23, 1984. All provisions except the collection of assessments were effective on and after April 1, 1984. The collection of assessments was effective on and after May 1, 1984. The program was implemented by informal rule making. The Department conducted a public meeting on February 14 and 15, 1984, to give interested parties an opportunity to discuss all issues raised by a proposed order. In accordance with the Act, the program was implemented without an up-front referendum. A referendum was conducted during August 1985, and continuation of the Order was approved by 89.7 percent of the producers voting.

ENFORCEMENT ACTIONS: Voluntary compliance with the Act has been high since the program's inception, with collections running about 99 percent of the total commercial milk marketings by dairy farmers. A total of 101 enforcement cases have been referred to the Department since the start of the program. Approximately one-half of these

cases have been closed. Of the active cases, 19 are in bankruptcy proceedings and 32 are pending in the Departments of Agriculture and Justice.

PROGRAM EXPENDITURES: \$000)

	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992
Total Assessments	77,152	216,942	213,859	216,406	216,917
Credits to Regional, State or local programs	--	140,174	138,743	139,501	141,362
Net Assessments	77,152	76,768	75,116	76,905	75,555
Other Funds ^{1/}	31,619	34,537	29,399	28,550	29,535
Total Funds Available	108,771	111,305	104,515	105,455	105,090
Board Expenses:					
Advertising	60,879	67,446	60,311	57,758	59,801
Research	8,758	10,223	12,287	13,218	12,465
Education	3,850	3,086	2,938	3,588	3,384
Other Activities	35	35	40	314	591
Administrative	2,585	3,031	1,977	2,016	2,183
Reimbursements to USDA:					
AMS	240	238	255	281	352
ERS	20	0	57	118	203

^{1/} Includes: Interest and beginning of year fund balance.

ISSUES:

BST LAWSUIT: On April 30, 1992, a Federal judge dismissed a lawsuit by Jeremy Rifkin of the Foundation of Economic Trends (FET) and 14 dairy farmers against the Secretary of Agriculture and the National Dairy Board (NDB). The petitioners contended that USDA and the NDB had violated Federal law by promoting bovine somatotropin (BST), which FDA has under consideration for commercial use. The lawsuit contended that the NDB's information campaign about BST violated the Act's provisions that prohibit influencing governmental activities. The judge dismissed the case, ruling that FET had not shown it had suffered sufficient harm to file the lawsuit and that the farmers had not exhausted their right to administrative challenge.

OIG AUDIT: In 1988, the AMS Administrator requested the Office of Inspector General (OIG) to conduct an audit of program funds covering the 25-month period from May 1984 through May 1986. The OIG's report, issued on July 18, 1988, made 10 recommendations to correct management weaknesses. These recommendations related to AMS' oversight over qualified programs, to the collection of assessments

from responsible persons, and to a lack of coordination in national advertising. All of the issues raised in the audit were resolved. A follow-up survey was conducted by the OIG in 1991. Four recommendations were made to improve program management. Three of the issues have been resolved and the forth is in the final stage of completion.

POTENTIAL REQUEST FOR REFERENDUM: For nearly two years, there has been a drive by a group of producers, largely in the Midwest, to "dump the Dairy Board." The group's goal was to gather enough signatures on a petition to require the Secretary to hold a referendum. In early December, representatives of the petition drive met with the Deputy Secretary, presumably with the petitions in hand. However, they chose not to leave their petitions and stated they would schedule a meeting on this issue with the new Secretary.

BEEF PROMOTION AND RESEARCH

AUTHORIZING STATUTE: Beef Promotion and Research Act of 1985
(7 U.S.C. 2901-2918)

SUMMARY OF PROVISIONS: The beef promotion and research program is administered by the Cattlemen's Beef Promotion and Research Board which consists of 111 members appointed by the Secretary from nominations submitted by eligible beef producer organizations and importer groups. The program is funded by a mandatory assessment of \$1 per head collected each time cattle are sold. All producers owning and marketing cattle, regardless of the size of their operation or value of their cattle, must pay the assessment. A comparable assessment is collected on all imported cattle and beef and beef products. Assessments began October 1, 1986. The Act required USDA to conduct a referendum among all cattle producers and importers after the program had been in effect no longer than 22 months. Subsequent referendums may be conducted at the request of at least 10 percent of producers. Refunds were available on a one-time basis for sales transactions completed prior to approval of the Order in referendum. This approval occurred approximately 20 months after assessments began. No refunds are available on subsequent transactions. Total revenues generated annually equal about \$80 million and are used to fund a variety of promotion, education, and research activities. Qualified State Beef Councils collect assessments in their respective States and are required to submit 50 cents of each \$1 collected to the Beef Board. The remainder may be retained by the States for use in State programs. The Beef Board approves its annual budget and establishes the budget for each major funding category. A Beef Promotion Operating Committee, composed of 10 members from the Board and 10 members from state Beef Councils, approves projects within the funding limitations established by the Board. The Beef Board's Budget as well as all plans and projects using Beef Board funds must be approved by USDA. As required by the Act, the Board contracts with established national, nonprofit industry-governed organizations to carry out its programs. These contracts are also approved by USDA. Section 9(a) of the Act authorizes the Secretary to (1) issue an order to restrain or prevent a person from violating an order; and (2) assess a civil penalty of not more than \$5,000 for violation of such order.

IMPLEMENTATION: The Beef Promotion and Research Order was issued on July 18, 1986, and assessments began on October 1, 1986. Implementation was through informal rulemaking. A referendum was held on May 10, 1988. Of the 256,505 valid ballots cast, 78.91 percent of cattle producers and importers voted in favor of the program. The referendum was held in county Extension Service offices. Votes were counted by the Agricultural

Stabilization and Conservation Service employees at the county level.

PROGRAM EXPENDITURES: \$000)	FY1988	FY1989	FY1990	FY1991	FY1992
Total Assessments	80,238	80,220	79,993	79,927	78,830
Refunds	3,785	---	---	---	---
Credit to States	33,842	35,569	36,844	36,437	35,920
Net Assessments	42,611	44,651	43,149	43,490	42,910
Other Funds	17,067	24,857	29,885	27,674	23,665
Total Funds Available	59,678	69,508	73,034	71,164	66,575
Board Expenses					
-Promotion	28,092	29,749	33,474	29,087	23,594
-Research	715	2,755	2,615	4,692	4,462
-Education/Other	5,981	7,587	8,838	15,804	18,034
-Administration	1,507	1,743	2,168	1,665	1,781
-Reimbursements-USDA	253	131	149	142	169
-Reimbursements-Customs	48	96	93	87	86

ENFORCEMENT ACTIONS: AMS issued 103 certified letters to persons referred by the Board for failing to remit assessments. Those who failed to respond were sent a second certified letter. To date, twenty have paid in full. Since the inception of the program fourteen cases have been referred to the Office of General Counsel (OGC) for possible legal action. Eleven cases have been resolved. Three cases are pending in OGC.

ISSUES:

In early 1992, news articles had raised an issue concerning a potential conflict of interest for the 10 members of the Beef Promotion Operating Committee from the Beef Industry Council (BIC) of the National Live Stock and Meat Board (NLSMB). These 10 members, along with 10 members of the Beef Board, approve all projects on behalf of the Beef Board as required by the legislation. A major share of the projects are awarded to the NLSMB, which is the industry organization with the most experience and expertise in the areas of domestic promotion, consumer education, and research. The legislation obviously contemplated that the NLSMB would be a major contractor with the Beef Board. Following numerous meetings and discussions between leaders of the Beef Board and BIC, the method of selecting the 10 representatives from the BIC will be altered to the extent permissible under the Order to provide for selection of BIC representatives on a State and regional basis rather than a national basis. USDA has concurred in this resolution of the issue.

PORK PROMOTION, RESEARCH, AND CONSUMER INFORMATION

AUTHORIZING STATUTE: Pork Promotion, Research, and Consumer Information Act of 1985 (7 U.S.C. 4801-4819)

SUMMARY OF PROVISIONS: The program is funded by a mandatory assessment on all slaughter, feeder, and breeding hogs sold in the U.S. which is collected by packers, marketing agencies and other purchasers; and all imported hogs and pork products which is collected by U.S. Customs Service at importation. Refunds were available only during the first 2 years of the program prior to approval of the Order in referendum. The Act provides that State Pork Producer Associations (45 States) shall receive guaranteed funding based on a formula established by the Act. The Order is administered by two Governing Bodies--National Pork Delegate Body and the National Pork Board. All State and national budgets, plans, and projects must be approved by USDA and annual CPA audits are required for the Pork Board and for State associations. After the initial referendum subsequent referenda may be conducted at the request of at least 15 percent of producers and importers. The Act authorizes (1) civil penalties issued by the Secretary of not more than \$1,000 for each violation; and an additional penalty equal to the amount of any unpaid assessments.

IMPLEMENTATION: The Order was issued September 5, 1986, and assessments began November 1, 1986. Implementation was through informal rulemaking. The program was initially funded by a mandatory assessment of 0.25 percent on the market value of all hogs sold in the United States, as well as an equivalent amount on imported hogs, pork, and pork products. However, it was increased to 0.35 percent effective December 1991 as approved by the Delegate Body. Annual assessments of about \$35 million are collected by the Pork Board. The National Pork Producers Delegate Body now has 162 producer members with a minimum of two producers from each of the 50 States and 7 importers. The Secretary appoints Delegate Body members from pork producers who have been nominated through special elections or another USDA-approved selection process in each State. Importers are selected from individuals nominated by eligible organizations. The Delegate Body which has limited authority meets annually and only recommends the rate of assessment, determines the percentage of assessments collected which will go to State associations, and elects a total of 8 hog producers and importers for appointment by the Secretary to the 5 vacancies which occur each year on the 15-member National Pork Board. The Pork Board develops budgets and awards contracts to carry out a coordinated program for pork promotion and research activities. As required by the Pork Act, USDA conducted a referendum among all pork producers and importers after the program had been in effect not less than 24 months and not longer than 30 months. Of the 44,953 valid

ballots cast in the September 7-8, 1988, referendum, 77.5 percent of pork producers and importers voting favored the program.

PROGRAM EXPENDITURES:	(\$000)	FY1988	FY1989	FY1990	FY1991	FY1992
Total Assessments		26,718	27,100	31,812	30,327	38,682
Refunds		1,940	---	---	---	---
Credit to States/NPPC		13,444	11,180	6,566	6,272	7,800
Net Assessments		10,949	15,488	25,246	24,055	30,871
Other Funds		3,797	3,540	2,573	6,104	2,133
Total Funds Available		14,746	19,028	27,819	30,159	33,004
Board Expenses						
-Promotion		8,794	13,249	14,087	18,604	19,446
-Research		799	1,563	3,522	4,179	4,428
-Education/Other		400	703	2,834	3,576	3,491
-Administration		1,723	1,397	1,194	1,196	1,413
-Reimbursement-USDA		134	145	146	144	154
-Reimbursement-Customs		29	66	46	56	59

ENFORCEMENT ACTIONS: There have been only 14 reported cases of noncompliance since the Order was implemented. Most of them involved failure to remit assessments and all but four which involve only small amounts of money have been resolved.

ISSUES:

FTC investigated "Pork--the Other White Meat" advertising campaign to determine whether the National Pork Producers Council (NPPC), who developed the campaign, engaged in deceptive and false advertising practices in violation of FTC Act (15 U.S.C. subsections 45, 52).

The FTC inquiry prompted by a complaint from the Center for Science in the Public Interest (CSPI) was initiated April 25, 1990, and was concluded in July 1992. Based on the results of its investigation, FTC concluded that the advertising campaign contained implied claims which were false and deceptive. FTC deferred action in the case and recommended that USDA take appropriate action. In discussions with USDA, the National Pork Board, who funded the "Pork--the Other White Meat" ads, proposed four actions to be taken in future ad campaigns as a means of resolving FTC concerns. Those actions are as follows:

1. Conduct market research to determine if ads contained implied claims which might be misleading to consumers.
2. Base all nutritional claims and comparisons with competing products on specific cuts and on nutritional data in USDA's Handbook 8-10, "Composition of Foods."
3. Discontinue the use of terms "surprisingly low" in fat, calories, or cholesterol" in advertisements.

4. Use nutritional claims and descriptive terms such as "low fat" or "lean" in accordance with new or existing USDA standards and regulations.

The USDA believes these actions together with continuing USDA oversight will satisfactorily address FTC's concerns and has formally notified FTC and the Board. To date, USDA has not received an official response from FTC.

Both the Board and USDA are committed to these actions, and USDA will take all necessary steps to make certain that future advertisements contain truthful and factual information.

EGG RESEARCH AND PROMOTION

AUTHORIZING STATUTE: Egg Research and Consumer Information Act of 1974 (7 U.S.C. 2701 et seq.)

SUMMARY OF PROVISIONS: The American Egg Board consists of 18 members and 18 alternates appointed by the Secretary from nominations submitted by 39 USDA-certified egg producer organizations in 6 regions. The program is funded by a nonrefundable assessment of 5 cents per 30-dozen case of commercial eggs marketed. Assessments are collected from producers by handlers. Section 15 of the Act authorizes the Secretary to impose civil penalties and/or cease and desist orders against persons found to be in violation of the Act, Order, or regulations, after such persons are provided with an opportunity for an administrative hearing before an administrative law judge. A civil penalty of not less than \$500 or more than \$5,000 may be assessed for each violation. Revenues generated annually approximate \$7.6 million and are used to fund a variety of promotion, nutrition, research, and education activities. The Act required that a referendum be conducted prior to implementation of the program and that the Order be favored by at least two-thirds of producers voting or a majority of producers representing at least two-thirds of the volume of eggs produced by all voters.

IMPLEMENTATION: The Egg Research and Promotion Order was issued on December 22, 1975. Implementation was through formal rulemaking. A referendum was conducted November 3-28, 1975, by the Poultry Division, Agricultural Marketing Service (AMS). Seventy-three percent of eligible producers approved the program. Refundable assessments began August 1, 1976, through issuance of Rules and Regulations following informal rulemaking.

The Order was amended effective January 1, 1989, to implement 1988 amendments to the Act which provided for (1) elimination of the refund provision for 18 months and (2) establishment of an escrow account from which producers could request a one-time refund. Implementation was through informal rulemaking. A referendum was conducted July 16-August 10, 1990, to determine whether producers favored continuation of nonrefundable assessments. The referendum passed decisively, with 84 percent of producers supporting elimination of refunds.

The Order was further amended March 1, 1990, through informal rulemaking to implement a 1989 amendment to the Act. The amendment exempts producers owning 30,000 or fewer laying hens from paying assessments. The previous exemption level was 3,000 hens.

The assessment rate has been changed twice through informal rulemaking. The Rules and Regulations were revised on September 1, 1987, to decrease the rate from 5 cents to 2.5 cents. On October 1, 1989, the rate was restored to 5 cents.

PROGRAM

EXPENDITURES:	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992¹</u>
Total Assessments	3,782	4,376 ²	7,385	7,638	7,678
Refunds	1,650	341 ³	--	--	--
Net Assessments	2,133	4,035	7,385	7,638	7,678
Other Funds	71	88	651 ⁴	242	164
Total Funds					
Available	2,204	4,123	8,036	7,880	7,842
Board Expenses:					
Promotion ⁵	303	679	3,859	4,143	4,993
Nutrition ⁶	1,015	1,360	1,189	1,374	1,637
Education	350	381	396	540	504
Other Activities ⁷	540	520	587	616	690
Administration ⁸	402	403	420	445	456
Reimbursements					
to USDA	46	40	52	67	60

¹ Estimates; actual totals not available until audit report provided to the Board in Mar. 1993.

² Reflects increase in assessment rate to 5 cents per 30-dozen case beginning Oct. 1, 1989.

³ Includes refunds actually paid on eligible 1988 assessments plus 10 percent placed in escrow account beginning Jan. 1, 1989.

⁴ Includes monies from refund escrow account which reverted to the Board after passage of 1990 referendum.

⁵ Includes advertising and foodservice promotion.

⁶ Funding for the Egg Nutrition Center and Cholesterol Action Program.

⁷ Includes funding for industry relations, State and regional support, materials distribution, long-range planning, product and market development, and cooking contests.

⁸ Also includes compliance activities and Board meeting expenses.

ENFORCEMENT ACTIONS: The majority of noncompliance cases are resolved by Board staff or AMS. Of the 15 noncompliance cases recommended for enforcement action under the administrative process available since 1980, 8 cases were terminated due to default or bankruptcy, 2 are pending, and 5 have resulted in payment of overdue assessments totaling \$105,471 and penalties in the amount of \$26,500.

ISSUES: During the last session of Congress, a bill was introduced in the Senate and House to amend the Egg Research and Consumer Information Act. The proposed legislation would increase the assessment exemption from 30,000 to 50,000 laying hens and permit the assessment rate to be increased up to 30 cents per case.

As a result of this proposed legislation, a task force of small farmers was formed to oppose the increase in the rate of assessment. They maintained that the larger producers have lower production costs and should therefore shoulder more of the assessment burden. They proposed a sliding scale in which the rate of assessment would increase in proportion to flock size.

The Department will give due consideration to any recommendations made by the task force.

TESTIMONY BY
JAMES P. CAMERLO, Jr.
PRESIDENT
NATIONAL MILK PRODUCERS FEDERATION

before the

COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON LIVESTOCK
U.S. HOUSE OF REPRESENTATIVES

regarding the

DAIRY PROMOTION PROGRAM

February 24, 1993

Mr. Chairman, I am James P. Camerlo, a dairy producer in Florence, Colorado. I serve as President of the National Milk Producers Federation (Federation), the national farm commodity organization representing dairy producers and the dairy cooperative marketing associations they own and operate throughout the United States. I appreciate this opportunity to testify about dairy promotion programs.

Before beginning, I want to congratulate you on your election to chair the Subcommittee on Livestock. The Federation has enjoyed working with you in the past and we look forward to working together with you in the future as we develop and improve programs and plans that benefit dairy producers.

The Federation was the principal proponent of the federal statute enacted in 1983 authorizing a national program for dairy product promotion, research, and nutrition education. The program was part of a comprehensive self-help strategy funded by all dairy producers to increase dairy product consumption both domestically and in foreign countries.

The Dairy Promotion and Research Order authorized by the statute became effective in 1984. The following year, almost 90 percent of the dairy producers who voted in a referendum approved continuing the program. Revenue from the 15 cents per hundredweight assessment paid by every dairy producer on all milk marketed amounts to more than \$215 million annually.

The National Milk Producers Federation is a farm commodity organization representing most of the dairy marketing cooperatives serving this nation. NMPP members market a majority of the milk produced in the U.S. making the Federation an effective voice on national issues for dairy cooperatives and their dairy farmer members.

The Federation provides the forum through which dairy farmers and their cooperatives formulate policy on national issues that affect the production and

marketing of milk. NMPP's contribution to this policy is aimed at improving the economic well-being of dairy farmers, thus assuring this nation's consumers an adequate supply of pure, wholesome milk and dairy products.

The policies of the Federation are determined by its members from across the nation. Therefore, the policy positions expressed by NMPP are the only nationwide expression of dairy farmers and their cooperatives on national public policy.

The law requires the U.S. Department of Agriculture (USDA) to submit an annual report to Congress describing program activities and analyzing program effectiveness. We are pleased that the independent analysis shows that the program has been effective in increasing dairy product consumption.

I believe that the program is an essential part of an overall plan to improve both domestic and foreign markets for U.S. dairy products. The program continues to have widespread support among most dairy producers. However, there have been recent efforts to have dairy producers sign petitions requesting USDA to hold another referendum on whether the program should be continued. The law provides for holding a referendum when requested by at least 10 percent of the affected producers. I think that concerns about the program held by some producers could be overcome by making a few program modifications.

OVERSIGHT

USDA has program oversight responsibilities to insure that all funds are properly accounted for and that the program is administered in accordance with the statute and the order. USDA's oversight costs are reimbursed from the assessment revenues. Consequently, oversight expenses reduce funds available for promotion activities.

We welcome necessary USDA oversight however, some oversight seems to exceed what is necessary; for example, the recent directive from USDA to qualified state and regional promotion programs telling them how funds had to be invested. Another questionable oversight activity is USDA audits of qualified promotion programs. This appears to duplicate work done by firms that regularly audit qualified programs.

PROGRAM COORDINATION

The law creating the national dairy promotion and research program called for "a coordinated program of promotion designed to strengthen the dairy industry's position in the marketplace." In order to better coordinate dairy promotion efforts, the Federation supports one national dairy promotion and research organization. Such enhanced coordination could best be achieved through consolidating the functions of the National Dairy Promotion and Research Board (NDB) and the United Dairy Industry Association (UDIA).

I am convinced that the coordination needed between national and state and regional dairy promotion programs cannot be accomplished unless representatives from state and

regional dairy promotion organizations participate fully in planning and implementing the national dairy promotion program. Almost two-thirds of the dairy promotion expenditures are controlled by state and regional organizations. However, no structure currently exists for these organizations to participate in developing a coordinated national dairy promotion program.

To correct this problem, the dairy promotion program should be modified to include an organization like the Beef Promotion Operating Committee; the group that develops beef promotion programs and budgets. That 20 member committee is composed of 10 Beef Board members and 10 members elected from state beef councils. A similar organization for the dairy industry should include an equal number of members elected by the NDB and UDIA. This organization should be responsible for developing national dairy promotion programs and budgets.

BOARD MEMBERSHIP

The Secretary of Agriculture currently appoints 36 dairy producers to run the national dairy promotion program. The Secretary's selections are made from nominations submitted by organizations that represent dairy producers. Some producers believe that the present appointment process is responsible for inequities in representation on the NDB and insufficient producer control over programs. A better alternative to achieve equitable representation and to insure producer control over programs would be to have NDB members elected by dairy producers.

Again, I appreciate this opportunity to provide you with our views on the Dairy Promotion Program. I will be happy to respond to questions.

Testimony by James Loper, Jr. before the House Agriculture Subcommittee on
Livestock, February 24, 1993

Mr. Chairman, my name is Jim Loper. I am a dairy farmer from Santa Teresa, New Mexico. I milk 300 cows with the help of my wife, son, and daughter-in-law. I am currently Chairman of the National Dairy Promotion and Research Board.

The National Dairy Board was created by the Dairy and Tobacco Adjustment Act of 1983 (Public Law 98-180-November 29, 1983) to "...carry out a coordinated program of promotion designed to strengthen the dairy industry's position in the marketplace and to maintain and expand domestic and foreign markets and uses for fluid milk and dairy products produced in the United States."

The Board consists of 36 dairy producers from across the 48 contiguous states with representation based on geography and milk production. The Secretary of Agriculture appoints Board members from nominations—at least two per open seat—made by farm groups. Board members serve no more than two consecutive three-year terms.

Dairy farmers fund all National Dairy Board programs via a 15-cent per hundredweight assessment on all milk marketed commercially by dairy farmers in the contiguous 48 states. Typically, 10 cents of the assessment funds state and regional programs while the remaining five cents, about \$75.6 million as stated in the July 1992 USDA Report to Congress on the Dairy Promotion Program, is devoted to National Dairy Board programs.

Last year, Mr. Chairman, the Board spent \$78.9 million on programs. Of this, the Board spent \$59.8 million on advertising, \$10.2 million on dairy foods and nutrition research, \$3.4 million on public relations and nutrition education and \$2.3 million on market research. I might point out, that by law, none of National Dairy Board funds are spent to influence legislation or regulation. Attachment #1 to this testimony spells out income and expenditures for the last five years.

Coordination between the national and state and regional programs and integration of departmental activities is critical to success.

As was the charge set out in the Act creating it, the National Dairy Board has committed the past three years to coordinating promotion efforts by national, state and regional dairy promotion organizations wherever possible, so that the entire 15-cent assessment is working to maximize the return on investment to dairy farmers. Today, we have coordinated advertising and promotion programs in fluid milk, cheese, butter and ice cream, in nutrition education and in dairy foods and nutrition research. In fact, a new fluid milk campaign targeting adult milk drinkers began this month and has pooled dairy-farmer assessments of the National Dairy Board and state and regional promoters for a 10 to 20 percent savings in media buys. The National Dairy Board is also working outside the industry to leverage dairy farmer dollars with companies like makers of ice cream sundae toppings, to promote dairy foods.

How are the Board's programs planned and executed?

The Board has a staff of 30, including support staff, which develops plans and strategies for the Board's consideration. Market research and lengthy discussion go into these plans with key business priorities spelled out for the allocation and integration of resources. Priorities for the next fiscal year, beginning May 1, as approved only two weeks ago by the dairy farmers serving on the National Dairy Board are:

- finding new consumer uses for milkfat;
- increasing consumption of fluid milk;
- increasing cheese sales;
- creating a positive image of dairy foods; and
- working more closely with dairy farmers funding the program.

Attachment #2 to this testimony details the priorities, rationales, and strategies for the coming year.

Mr. Chairman, I might point out that in order to keep overhead costs low, the staff does work with outside contractors such as advertising and publicity agencies, and university researchers. All of this work is conducted under comprehensive and stringent contracts, and all contracts are reviewed and approved by the USDA. All nutrition education programs are consistent with the USDA Handbook #8.

The Board sets clear, measurable objectives for each priority and program so that they can be evaluated. We look for a more immediate impact from our advertising and promotions, and a longer term return from our investment in dairy foods and nutrition research.

The Board meets with staff at least six times a year to evaluate progress in meeting objectives. Our Market and Economic Research Department evaluates advertising effectiveness as well as the impact of promotion and education programs. If programs do not achieve objectives, they are eliminated or changed.

How effective are the National Dairy Board's programs in creating more demand for dairy producers' milk?

As a requirement of the Act establishing the dairy promotion program, USDA submits a yearly Report to Congress which must include an independent evaluation of the effectiveness of the program. The 1992 USDA Report to Congress states that the expanded advertising, made possible by the Act, increased fluid milk sales by an estimated 4.6 percent over what sales would have been without the program. The additional cheese advertising expenditures increased national retail sales of cheese for in-home use by an average 2.4 percent over what sales would have been without the program.

Other independent evaluations have shown returns as high as three to one on the farmers' investment in promotion.

Our own internal evaluations have shown significant upward spikes in sales related to specific promotions for butter, cheese, chocolate milk and ice cream—all of which were promotions coordinated with the state and regional groups funded by 10 cents of the dairy promotion assessment. In addition, dairy foods and nutrition research has developed safer, better quality dairy foods as well as the scientific knowledge that dairy foods are nutritious.

Results from dairy foods and nutrition research funded by the National Dairy Board include:

- ultrafiltration and ultra-high temperature technology which has led to the introduction of a chocolate milk product that is selling American farmers' milk in Mexico at a rate of about 16 tankers a week;
- technology to end many of the problems associated with *Listeria* in dairy foods;
- cholesterol removal from milkfat;
- edible films made from whey proteins;
- lactose-reduced ice cream;
- improved quality of low-fat cheeses;
- scientific proof of the benefits of dairy calcium in the diet to prevent osteoporosis which became the crux of an advertising campaign; and
- knowledge that eating hard cheeses prevents tooth decay.

The National Dairy Board recently formed a research institute with noted scientists to confirm initial findings that consuming dairy foods may prevent colon cancer.

To increase coordination and help the industry become more market-driven, the National Dairy Board developed a market research database which can be accessed by computer modem for use by all organizations funded by the dairy farmer assessment.

In line with its mission, the National Dairy Board has worked to maintain dairy sales. In the last four years, the Board, along with other dairy organizations, has devoted resources to maintaining the healthy image of milk and dairy products through an onslaught of food safety issues. These range from the controversial BST issue to animal medication residues to a famous baby doctor stating milk is bad for children. In today's climate, we expect that the defense must continue.

I mentioned the controversial BST issue. The National Dairy Board's concern was that BST could have a significantly negative impact on dairy sales which was confirmed by consumer research. The Board recognizes its responsibility to maintain consumption, and therefore, developed a program distributing scientific information about milk from cows treated with BST to third parties such as pediatricians, school food service personnel, food store managers and interested media.

As a result of the Board's program, the group which had raised the food safety questions--The Foundation on Economic Trends--filed a lawsuit against the Board contending that the Board's information program violated the Act's provisions that prohibit influencing government activities. The lawsuit was subsequently dismissed by the Court.

Some dairy farmers, many of whom were concerned with the BST issue and involved in the lawsuit, started a petition drive to call for a referendum of the National Dairy Board. This "Dump the Dairy Board" campaign has been going on now since October 1991 with much trade media publicity associated with it. In early December, representatives of the petition drive met with the Deputy Secretary of USDA, presumably with the required petitions in hand. However, they chose not to leave their petitions and stated they would schedule a meeting on this issue with the new Secretary.

Mr. Chairman, in closing, let me say that the National Dairy Board is constantly striving for more effective, better coordinated programs to increase the return on investment to America's dairy farmers. We look for input from our fellow dairy farmers to make sure we are meeting their needs within the bounds of dairy promotion.

Thank you for this opportunity to talk to you about the National Dairy Promotion and Research Board.

(Attachments follow:)

NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

**PROGRAM EXPENDITURES FOR FISCAL YEARS ENDING
APRIL 30, 1988, THROUGH APRIL 30, 1992:**

	<u>FY '88</u>	<u>FY '89</u>	<u>FY '90</u>	<u>FY '91</u>	<u>FY '92</u>
	(Thousands)				
<u>Total Assessments</u>	\$77,152	\$216,942	\$213,859	\$216,406	\$216,917
Credits to Regional, State or local programs	not available	140,174	138,743	139,501	141,362
Net Assessments	77,152	76,768	75,118	78,905	75,555
Interest	1,887	2,133	2,153	1,901	1,373
Carryover from prior years	-	5,158	598	-	2,051
<u>Total Funds Available</u>	<u>\$79,039</u>	<u>\$84,059</u>	<u>\$77,865</u>	<u>\$78,808</u>	<u>\$78,979</u>
<u>Board Expenses:</u>					
Advertising	\$60,879	\$65,320	\$60,311	\$57,758	\$59,801
Dairy Foods & Nutrition Research	7,375	10,354	9,822	10,894	10,199
Public Relations & Nutrition Education	3,850	3,209	2,938	3,588	3,384
Market & Economic Research	1,383	1,872	2,489	2,324	2,266
Export Enhancement	35	35	40	314	591
General & Administrative	2,585	3,031	1,977	2,016	2,183
Reimbursements to USDA:					
AMS	240	238	255	281	352
ERS	20	0	33	118	203
<u>TOTAL</u>	<u>\$78,387</u>	<u>\$84,059</u>	<u>\$77,865</u>	<u>\$77,293</u>	<u>\$78,979</u>

NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

PRIORITY

AREAS FOR THE

NATIONAL DAIRY BOARD

FEBRUARY 1993

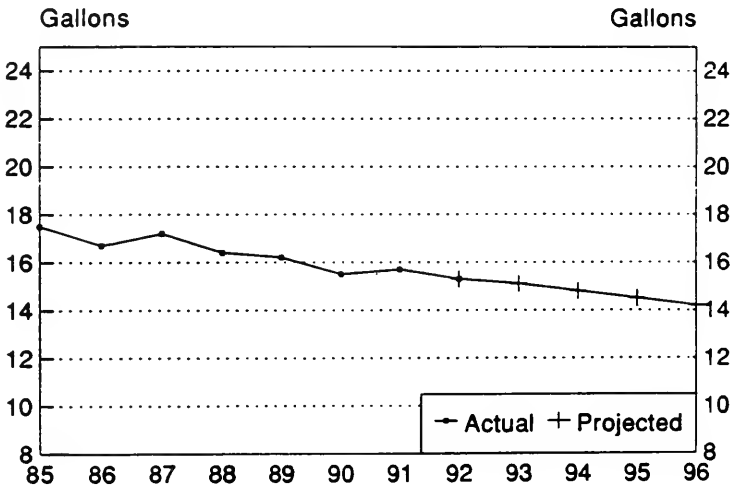
FLUID MILK PRIORITY

RATIONALE FOR FLUID MILK PRIORITY

Overall, fluid milk is the most important product to producers. It utilizes 38.6% of milk produced and makes up 43.8% of the revenue paid to producers. There has been a steady decline in fluid milk consumption over the past decade and nothing indicates a change in the trend. To add to the concern, fluid milk consumption is very low in the out-of-home market where the food dollar has been moving.

This priority is driven by the above situation, acknowledging that UDIA has the leadership responsibility for fluid milk promotion and advertising efforts.

SIP Milk Consumption In-home



FLUID MILK PRIORITY

VISION:

Fluid milk consumption is sustained because consumer desires are being better met with improved positionings product offering and an industry wide marketing effort.

LONG TERM OBJECTIVE:

By December 1995, *per capita* consumption of fluid milk will be at 15.3 gallons as per SIP data.

OPPORTUNITIES & OBSTACLES

New products
Better packaging
Quality issues

Kids attitudes & usage trends

STRATEGIES

Discover and market improved fluid package, product, and positioning options

Maintain kids segment attitudes/usage patterns

PROGRAMS

Product & Nutrition Research (as listed)

Kids Advertising
School Breakfast
Chocolate Milk
Publicity
Brochure Printing & Redemption

Adult attitudes
Adult usage trend
Teen usage trend
Segmentation
Pricing incentives

Improve late teen and adult segments attitude usage patterns - primarily those that account for greatest share of declining per capita trend

Adult advertising (UDIA led)
Teen advertising
Nutrition Communications
Investigate opportunities

Processor promotion spending

Integrate industry activity

UDIA/NDB Planning
MIF Program

Price

Market/evaluation research

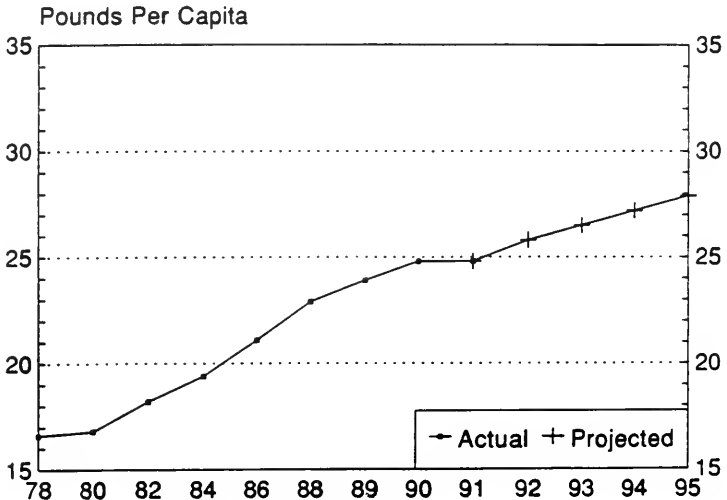
NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

CHEESE PRIORITY**RATIONALE FOR CHEESE PRIORITY**

Cheese has the most impact on the M-W price. Therefore, cheese has the highest priority of the manufactured products. Cheese is close to fluid milk in utilization of milk and it has a consistent growth pattern to date.

There are some potential concerns for cheese that could affect consumption. It is critical that we address these concerns to assure a continued increase in consumption.

Cheese is the only category without a direct competitive substitute in sandwich and cooking usage.

Cheese Consumption

CHEESE PRIORITY

VISION:

There is continued market growth of cheese through the maintenance of favorable attitudes, new usages, better products.

LONG TERM OBJECTIVE:

By December 1995, increase per capita consumption of cheese to 27 lbs.

OPPORTUNITIES/OBSTACLES

STRATEGIES

Maintain favorable attitudes in face of growing health concerns and more stringent labeling

PROGRAMS
Continuity Advertising
Nutrition Communications

Pizza - growing category
Other consumer uses flat/
slight declines
Convenience oriented lifestyle
Omission
Expanding varieties/merchandising

Build top of mind awareness and expand usage through new ideas and purchase of newer varieties, both at home and away from home

Continuity Advertising
Promotion
Food Publicity
Foodservice
Applications research/new positions
Brochure printing and redemption

Low fat cheese acceptance
Total quality

Improve customer satisfaction through increased quality & safety of cheeses, particularly low fat

New products
New technologies
Quality
Safety
Communications to dairy processors

Market oriented cheese processors
UDIA promotion spending

Better coordination of industry efforts

Communications plan
Task Force

Cheese used as ingredient in processed foods
Works well in processed foods

Expand cheese as ingredient in food manufacturers channel

Food manufacturers advertising
Tech Transfer

Export Potential

Expand cheese opportunities in export channels

Export program

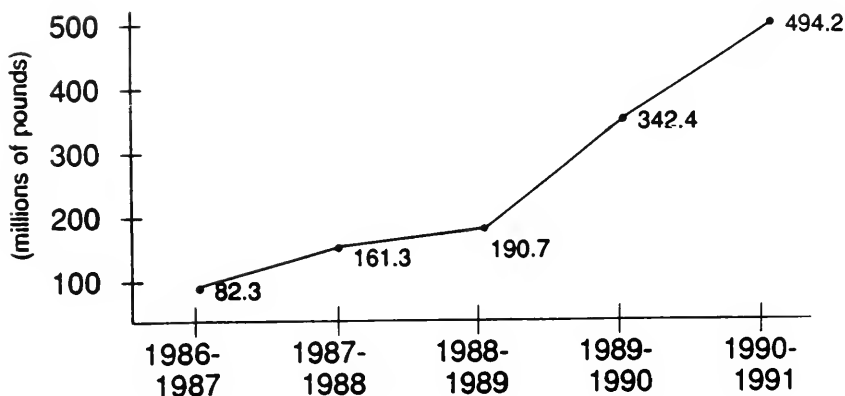
Price

Market/evaluation research

NATIONAL DAIRY PROMOTION AND RESEARCH BOARD

MILKFAT PRIORITY**RATIONALE FOR MILKFAT PRIORITY**

The gap between milkfat produced and the commercial use of milkfat used in traditional or standard products continues to expand. New markets for the milkfat produced must be identified. Surveys of consumer attitudes concerning diet and health consistently document the consumer perception that fat is to be avoided, and saturated fats, calories, and cholesterol are a major issue. Dairy fats contain saturated fats, as well as cholesterol, and as such have been communicated to be fats which should be avoided. As the move toward lower fat in the diet progresses, and lower fat product alternatives are chosen, the need to enhance the usefulness of milkfat(s), and to explore and develop non-traditional uses for milkfat increases.

**CCC STOCKS OF
BUTTER AND BUTTER PRODUCTS**

MILK FAT PRIORITY

VISION:

There will be a whole lot of new uses for butter fat (or fractions of butter fat) - some already in the market some in development.

LONG TERM OBJECTIVE:

By December 1995, 200 million lbs of butter fat are being used annually in newly identified ways.
(an increase in per capita of about .8 lbs)

OPPORTUNITIES/OBSTACLES

Nonfood use of milkfat
Milkfat replacing other
fats in processed foods
Fat Technology
Cost Competitiveness
Lowfat mindset

STRATEGIES

Develop the role of milkfat in
meeting newly identified opportunities,
positionings and uses for consumers/
customers

Commercialize the benefits of
milkfat for new uses

Pricing Incentive to produce fat

Identify additional non-traditional areas of
opportunity for increased sale/
utilization of milkfat

PROGRAMS

Confections
Skin/tissue
repair
Cosmetics

Communications to manufacturers
Tech transfer

Butter fat fractions/
Applications

Idea generation
Qualitative
Quantitative

IMAGE OF DAIRY PRODUCTS PRIORITY

RATIONALE FOR IMAGE OF DAIRY PRODUCTS PRIORITY

Selling the benefits of individual dairy foods may not be enough.

We need to find umbrella, image-building messages that will be motivating to our consumers who are currently reducing or stopping consumption due to external issues such as fat, cholesterol, safety, purity, fattening and lactose.

IMAGE OF DAIRY PRODUCTS PRIORITY

VISION: Consumers consider dairy foods as nutritious and safe and are more favorably predisposed to their consumption.

LONG TERM OBJECTIVE: By December 1995, show improvement in consumers overall *predisposition* to dairy foods.

OPPORTUNITIES & OBSTACLES

Government Policy
Attitudes of Health Professionals
Diet & health messages (fat, cholesterol
calcium, caloric intake)

STRATEGIES

*Refocus eating behavior from an
avoidance behavior to fulfilling
individual needs; demonstrate the
necessity of dairy foods*

New health research

*Discover positive health attributes
of milk & dairy foods*

PROGRAMS

Resetting the American
Table
Institute on Nutrition &
Genetics
Brochure Printing & Redemption

Health Professionals

Consensus
Health benefits of
Cultured Products
Dairy fat & health
benefits

Brochure Printing & Redemption
Communications of nutrition research
results

Competitive products & messages

*Develop & implement an industry wide
"dairy image" communications plan*

"Starter" program (1993 FY
Budget)

Quantitative Image Study
Strategic/Creative Concept
Testing

Retail trade communications

Vegetarianism
Labeling
Animal rights
Environmental Issues

*Maintain an issues management
system*

Issue Tracking system
Assessment & Implementation
Industry wide Task Force
(Issue specific)
Crisis response
Residue management

Product safety

*Assist industry in delivering
safe, high quality products*

Product research

INDUSTRY COMMUNICATIONS PRIORITY

RATIONALE FOR INDUSTRY COMMUNICATIONS PRIORITY

Dairy farmers place a value on services they are directly involved with such as those received from their milk hauler, cooperative personnel and veterinarian. However, few farmers are directly involved in their promotion programs and, therefore, tend to be less knowledgeable about the value of their investment.

Since dairy farmers are the funders, they need to be informed about National Dairy Board programs and how those programs work with and complement the programs of other producer-funded organizations. It is also important to assess what dairy farmers want from the programs and then develop programs accordingly.

INDUSTRY COMMUNICATIONS PRIORITY

VISION:

Dairy farmers are adequately informed about their 15¢ promotion investment and consider the Board to be responsive to their input into the program.

LONG TERM OBJECTIVE:

By January 1994, two thirds of U.S. dairy farmers are satisfied with their understanding of NDB programs and they feel like they are being heard.

OPPORTUNITIES & OBSTACLES Mass Communications

STRATEGIES

Continue broad based communications efforts with dairy farmers

PROGRAMS

Industry Communications

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Regional forums

Program Coordination 10¢ & 5¢

Coordinated Plans

Continue implementation of regional constituent outreach and input programs

Further develop ways to coordinate programs with UDIA, state and regional promotion organizations and other agriculture commodity promotion groups

Leadership knowledge & attitude
Messages from other farm organizations

Task Forces
Tech Transfer
Industry Advisory Committees
Export Newsletter

Board structure
Milk Price

Industry Survey

Develop ways to inform and involve coops, independent milk marketers and other dairy organizations

Testimony of
Mr. Terry Hall
900 Gorsuch Road
Westminster, Maryland 21157
410/848-2539

Representing the Dump the Dairy Board Coalition

My name is Terry Hall. My wife and I have been in the dairy business for 10 1/2 years. We rent a farm of 70 tillable acres for \$900.00 per month. We have 50 Holstein milk cows and 40 plus heifers. We market our milk through Dairyman Inc.

In November 1982, I was paid \$13.87 for base, \$9.53 for excess. The co-op held capital retains. My hauling rate was 49 cents per hundred with a stop charge of \$2.00.

In January 1993, I was paid \$13.21 for base and \$11.40 for excess. My co-op held retains and estimated patron dividend. I paid a government assessment amount into two promotion funds. My stop charge was \$5.00 and hauling was 60 cents per hundred.

In 10 years I have watched the price of my product go down, and the requirements to ship Class I milk and meat go up. In 1988, the State of Maryland said my well water was not safe to wash the milk line and bulk tank, but was safe for me and the cows to drink. So at a cost of \$45,000.00, my landlord hooked up to city water. When the state came to take a sample, they found it to be no better than what was in the well. They kept the \$45,000.00

We sell our cull cows and calves at the local stockyards. In 1982, cull cows would sell for 40-60 cents per pound. Today, they sell for 20-40 cents per pound.

I am told by these promotion experts that it is essential to advertise and research milk and meat. They claim that demand for these products has gone up since the mandatory checkoff has come into effect. If so, why am I receiving less today than 10 years ago? While my products are 100% inspected and taxed, the imported dairy products pay no promotion and are 2% inspected.

My wife and I have no idea what we will receive for our products from month to month, but the people who work for these promotion agencies are guaranteed an income whether my product price goes up or down. Tight management practices require that I do away with things that are not beneficial for example, no new equipment of any kind and no health insurance for my wife and three children. How can you say these check-offs are beneficial to me when I'm being paid less than I was 10 years ago?



FARMERS UNION
Milk Marketing Cooperative

**Statement of
Stewart G. Huber, President
Farmers Union Milk Marketing Cooperative**

**before the
U.S. House Committee on Agriculture
Subcommittee on Livestock**

**Public Hearing to
Review Producer-Funded Livestock
Research and Promotion Programs**

**February 24, 1993
Washington, D.C.**

Mr. Chairman and member of the Subcommittee, my name is Stewart Huber. I own and operate a Wisconsin dairy farm along with other members of my family and serve as president of Farmers Union Milk Marketing Cooperative (FUMMC). On behalf of our more than 10,900 members in eight Midwest states, we thank you for holding this hearing and allowing us to testify here today.

At the outset, let me say that the dairy farmers we represent tend to measure the success or failure of the dairy promotion programs they fund by the economic health of their farming operations. By that measure, these programs could be doing better – much better. Conditions on Midwest dairy farms have deteriorated dramatically during the past 7 ½ months. Green Bay Exchange cheese prices have been in free fall and the Minnesota-Wisconsin price is expected to range from \$10.10 to \$10.60 by April.

Good dairymen who have weathered other declines, who have been survivors in past rough periods are caught short this time. In the past week, three excellent dairy farmers have indicated when they went in to renew their loans at the bank in past days they were told their operations wouldn't cash-flow on projected prices. They're angry, they're frustrated, they want something done. That frustration can be seen in the campaign to dump the National Dairy Board, which delegates at our two most recent annual meetings have endorsed. If a referendum is called, the outcome at this time would be uncertain. Clearly, dairy farmers expect more from their promotion checkoff dollars.

As I testified before the full Committee on February 3, an effective, long range supply management program or surplus disposal program is urgently needed to prevent a small amount of surplus from depressing the price on the rest of our production. While we encourage you to concentrate your energy on that goal, we also want you to consider our views on how the National Dairy Board might better serve the producers who foot the bill.

Let me state for the record that the Farmers Union Milk Marketing Cooperative Board of Directors pledged in December 1992 that it would not bloc vote in the upcoming review referendum on the National Dairy Board. Our Board also challenged all other dairy cooperatives to take the pledge against bloc voting in this referendum. We believe that producers should be actively encouraged to vote on the fundamental question of the future of the National Dairy Board. Bloc voting interferes with that right. You may want to join us in encouraging all cooperatives not to bloc vote on this question.

One of the principal reasons dairy product demand has been relatively flat is because our product's image has been tarnished. We've allowed dairy products to be pictured as an excessively expensive, subsidized commodity that is dangerous to health. It's sad because the truth about the price, quality, nutritional value, even the government program cost, could be our best public relations. Some well-financed groups with their own secret agendas have done us in. We need to stop being in a defensive mode and be pro-active. We've got a great story to tell the nation.

If a checkoff program is to remain, then the ag committee should look at assessing imports on a milk equivalent basis. Dairy farmers dig deep into their pockets to fund a national dairy promotion and research program, only to see imports getting a free ride. I happen to serve as a member of the Beef Promotion and Research Board, which has authority to collect checkoff revenues from beef importers. If farmers vote to continue the program, it makes sense to give the National Dairy Board authority to assess imports as well, and we urge you to consider amending the Dairy and Tobacco Adjustment Act of 1983 to create such authority.

Jointly funded brand advertising should be explored since generic advertising has clear limitations. Again, this would require amending the 1983 Act, but we strongly believe authorization of some forms of branded advertising tie-ins would improve the program's effectiveness on behalf of dairy producers.

Research and marketing must also be geared to appeal to the tastes and desires of our increasingly diverse ethnic populations with new life styles. Our Asian and Hispanic communities are just two rapidly growing, new markets which must be better targeted by dairy advertising and promotion.

The National Dairy Board should be much more aggressive in telling the producers' side of the story. The National Dairy Board must do a much better job of anticipating and preempting anti-dairy, anti-animal agriculture propaganda from radical animal rights activists, their allies in the medical community, the vegetable oil lobby and others with

hidden agendas. We must be proactive rather than reactive. We simply cannot allow fringe groups like the Physicians Committee for Responsible Medicine, which is a front for PETA – People for the Ethical Treatment of Animals – and well-funded crusaders like Phil Sokolof to mislead the public with their harmful dietary propaganda.

And finally, we think there needs to be more separation between livestock promotion boards and those organizations with which they contract promotion, research and administrative services. To avoid even the appearance of impropriety, this clear separation will ensure that checkoff funds are not used for political purposes in violation of the act, and that producers can have full confidence that their promotion dollars are being used for proper purposes and not for the benefit of other special interests.

Thank you for this opportunity to testify here today.

(Attachment follows:)



FARMERS UNION
Milk Marketing Cooperative

Resolutions Report of the Districting & Resolutions Committee for the 21st Annual Member Meeting

Approved January 6, 1993

PREAMBLE

Dairy farmers deserve, and this nation can afford to pay, a fair price for their production. To that end, we seek policies which improve farm income, balance milk supply and demand, end regional price discrimination against the Upper Midwest, strengthen and promote the family farm, protect against unfair international trading practices, and share our great agricultural abundance with the needy at home and abroad.

1. FEDERAL DAIRY POLICY

We continue to support parity and a single nationwide milk marketing order as goals for the dairy program and federal milk marketing order system.

We urge Congress to develop a comprehensive new dairy program. An effective, long-term dairy supply management program or disposal program is urgently needed to improve family farm income and stabilize dairy markets. The new program should be designed to allow producers to earn their costs of production, plus a reasonable profit, from the marketplace. It should be one that can bring new farmers into dairying, balance milk supply and demand, reduce government costs, and be signed into law. And, it should provide for the needs of low-income consumers of dairy products without reducing farm income. Dairy producers should not be assessed for the costs of the Women, Infants and Children (WIC) program, red meat purchases and other non-dairy costs.

We urge Congress to repeal the milk assessment applied to dairy farmers to help pay for surpluses and balance the budget.

We urge that the Secretary and Congress re-evaluate various types of inventory management programs for their possible use in dairy. It would be irresponsible to promote one without examining the impacts of the others.

The provisions of this new program must not be limited by the Uruguay Round of the GATT, the North American Free Trade Agreement or other external factors. Congress must preserve its authority to establish domestic agricultural policy despite any future restrictions

imposed by international trade agreements. The right to continue Section 22 and other programs essential to American farmers and consumers must be preserved.

2. INTERNATIONAL TRADE POLICY, HARMONIZED WORLD STANDARDS

We recognize that international trade agreements when properly crafted can be useful vehicles to lessen world trade tensions, increase development opportunities and economic growth rates and increase trade in goods and services for the betterment of humankind as a whole. Conversely, poorly crafted international trade agreements could heighten trade tensions, do serious damage to economies already in place and lower living standards of people in the countries involved.

While we welcome the opportunity for increased international trade, the recently concluded North American Free Trade Agreement poses far greater risks than opportunities for U.S. dairy producers and sets a dangerous precedent for the Uruguay Round of the General Agreement on Tariffs and Trade. NAFTA dairy concerns include the loss of Section 22 through tariffication, failure to harmonize sanitation standards at adequate levels, inadequate rules of origin, the Canadian dairy exclusion, unequal treatment of tariffs on dairy products between the U.S. and Mexico, and failure to address the issue of Bovine Growth Hormone.

We call on President Clinton to address these dairy concerns through a side agreement on agriculture, in the same manner as he has stated he will do with labor and the environment. If this process fails to adequately address our concerns, we call on Congress to revoke fast track authority and make the necessary amendments to correct these flaws in NAFTA. We call on Congress to reject NAFTA in its entirety if our concerns are not adequately addressed.

The difficulties posed by regional trade pacts such as NAFTA are further magnified by the worldwide GATT talks. While the Uruguay Round provides an excellent opportunity to correct serious flaws in international trading rules affecting agriculture, it is based on the Dunkel final draft agreement which creates far more problems than it solves. The Dunkel final draft includes radical changes such as tariffication and decoupling as sought by U.S. negotiators which would create serious new problems far more harmful than those alleged under current GATT rules. We call on Congress to reject the Dunkel draft and any other Uruguay Round proposals which compromise Section 22, food safety or other key concerns. Harmonization of world food health and sanitation standards at levels equal to current U.S. standards must be the first order of business before any trade agreement is reached at the GATT talks.

Section 22 import quotas for dairy and other foods must be preserved to protect farmers and consumers from imports which do not meet rigid U.S. health and sanitation standards. Congress found that the U.S. Food and Drug Administration inspects only about 2% of food imports, and of those random samplings, many are heavily contaminated, and that FDA is further incapable of keeping even rejected shipments off the market. Besides major losses to

1 producers, consumers face a public health crisis of immense proportions if supermarket shelves
2 are flooded with dairy and other food imports in the current absence of adequate world health
3 standards.

4 The GATT talks should guarantee each nation the right to preserve and strengthen its
5 family farm system of agriculture and carry out related social goals through domestic farm
6 programs. Nations should be encouraged to adopt programs which manage commodity
7 inventories, improve farm income for small and medium-sized producers, protect the
8 environment and provide food security for the domestic population.

9 All imported dairy and meat products must be produced and processed under sanitation
10 standards comparable to USDA sanitation standards. Consumer safety demands that 100% of
11 imports be USDA inspected. The cost of USDA inspection of foreign producers and processors
12 to verify compliance should be charged to the producers of imports just as U.S. inspections are
13 financed through farm and plant inspection fees.

14 **3. FEDERAL ORDER REFORMS**

15 We strongly recommend that the Secretary of Agriculture include national pooling of at
16 least part of the Class I differential as was originally proposed in the Leahy emergency dairy
17 relief bill as a transition to a single, national milk marketing order. We are concerned that some
18 organizations are now recommending that the federal order system be scrapped in favor of
19 unlimited domestic competitive pricing. We strongly oppose this suggestion and believe the
20 system should be reformed and made more equitable instead.

21 Until one national order is achieved, we recommend repeal of the congressionally
22 mandated transportation differentials set by the Food Security Act of 1985 and return of the
23 authority to establish differentials to the federal milk marketing order administrators through the
24 public hearing process. We again call on all producers and their cooperatives in the region and
25 the national and state Farmers Unions to join us to achieve these urgently needed federal order
26 reforms.

27 **4. CONSUMER AWARENESS**

28 Whereas responsible government farm programs are for the benefit of consumers as well
29 as farmers, we promote harmonized world health and sanitation standards for food products. We
30 support legislation that would require that all imported dairy products are clearly labeled
31 "imported," and that the label indicate ingredients and country of origin. The label should also
32 state, "no guarantee as to purity or standards under which produced."

33 We believe food products manufactured in the United States which use an imported dairy
34 product as an ingredient should be clearly labeled as containing imported dairy products.

35 Food and Drug Administration rules should require that the word "imitation," be used in
36 the advertising and labeling of imitation cheese and other substitutes for dairy products.

1 The truth about the benefits of farm programs and prices to consumers and farmers could
 2 be our very best public relations. The American consumer has been assured the widest variety,
 3 the most reasonably priced and the safest food supply in the world.

4 We urge members to buy American-made products.

5 We support efforts by the General Accounting Office, members of Congress and other
 6 federal officials to investigate charges of price-fixing and manipulation of dairy markets.

7 **5. BOVINE GROWTH HORMONE**

8 Consumers already wary of food additives and genetically altered food might view BGH
 9 as having long-term deleterious health effects, and such perceptions may erode milk's image as
 10 the natural, perfect food. We, therefore, demand that a social and economic impact study be
 11 done on all emerging dairy technologies before implementation and that no milk produced with
 12 BGH be allowed for human consumption unless it is determined to be safe and unconditionally
 13 approved by the Food and Drug Administration. The safety of BGH also should be
 14 independently confirmed by an unbiased third party.

15 We further demand that chemical companies developing or producing BGH or any food
 16 product developed through biotechnology be held liable for any human health problems arising
 17 from its use.

18 **6. ANIMAL PATENTING**

19 We urge Congress to support a moratorium on the patenting of transgenic animals
 20 developed through genetic engineering until the broader legal, ethical and economic questions
 21 are thoroughly explored.

22 We support legislation to exempt farmers from paying royalties on patented farm
 23 animals.

24 **7. DAIRY PRODUCT UTILIZATION**

25 We support increased use of real, domestically produced dairy products by U.S. military
 26 personnel, Veterans Administration facilities, senior citizens, nursing home residents, the
 27 handicapped, and school children and personnel.

28 We support the adoption of increased national fluid milk solids standards based on
 29 current California standards.

30 We also support the continuation and expansion of programs to distribute domestic
 31 agricultural commodities to needy people and disaster victims here and abroad.

32 **8. CCC ACQUISITION COSTS AND REMOVALS**

33 We believe the federal government misrepresents the true cost of the dairy price support
 34 program by constantly referring to gross federal outlays rather than actual net costs. We urge
 35 Congress to require USDA to publish a balance sheet and income statement annually showing
 36 the total dollar cost of the program and the value of the inventory owned by the government, and

contributions made by dairy farmer assessments.

The government should report income made from sales of government-owned dairy products and credit this income to the dairy program and not put it in the general revenue fund. The dairy program should also receive credits for the full acquisition costs of dairy product donations to other government agencies for foreign, domestic and military use.

The net formula used by USDA includes approximately 2 billion pounds of milk products the federal government needs for nutrition programs. The formula also includes dairy products imported from other countries.

Be it resolved that FUMMC work to get the formula used by USDA changed to reflect true surplus removals by subtracting the amount of imported products and also to exclude those dairy products used by the federal government for its nutrition programs.

We condemn contradictory federal policies that cut food distribution programs due to low inventories while at the same time reducing the dairy support price because of excess projected CCC purchases. Be it therefore resolved that FUMMC question the formula used by USDA to determine the dairy surplus.

9. SCHOOL USE OF DAIRY PRODUCTS

We urge the federal government to provide free milk to all school children through the school lunch and morning milk programs. We urge that all schools be required to offer whole milk as a choice to all students and use only 100% real dairy products.

10. CCC PURCHASES

We urge all dairy plants to seek and develop commercial markets for their products rather than sell them to the government.

11. DAIRY ADVERTISING, RESEARCH AND PROMOTION

The leadership of dairy promotion programs should be directly accountable to the producers who fund such programs. To that end, we believe the boards of all national, regional and state dairy promotion programs should be elected by dairy producers rather than appointed by public officials.

We encourage all promotion boards to be as small and efficient as possible. All producer-funded commodity promotion programs should avoid extravagant spending and hold costs for salaries, facilities, per diems, expense accounts and other expenses at reasonable levels. Excess funds collected by these programs should be returned to producers.

We urge the national, regional and state promotion boards to become more aggressive and innovative in their efforts to increase consumer demand for dairy products. Top priority should be given to programs which promote the many health benefits of milk and dairy products, and counteract misleading statements that dairy products are dangerous to health.

We oppose the use of producer funds to promote BGH-produced milk and other

1 controversial topics which may violate the ban on political activity in milk promotion orders.

2 12. NATIONAL DAIRY BOARD RECALL CAMPAIGN

3 We commend those participating in the drive to recall the National Dairy Promotion and
4 Research Board.

5 13. DAIRY INSPECTION POLICY

6 We support reasonable and uniform dairy inspections and quality standards for all milk
7 producers. We encourage state regulators to be reasonable and practical in implementing new
8 interstate restrictions on antibiotics. We support efforts to ensure a safe and wholesome milk
9 supply. But present rules for drug storage on dairy farms are unfair, unworkable, and do little to
10 help prevent the contamination of milk with antibiotics. New rules should have input from
11 producers, processors, veterinarians, and drug manufacturers and should be adequately
12 communicated to all affected parties before implementation. Whereas dairy imports are entering
13 the country with no inspection at the farm or plant at which they are produced, we oppose efforts
14 to impose more stringent federal and state inspection of U.S. dairy farms.

15 14. MEMBER INVOLVEMENT

16 We commend participating cafes for serving second glasses of milk free during Dairy
17 Month and the year-round, and we encourage the Cooperative to work towards more
18 participation in this project.

19 We encourage members of the Cooperative to continue to do all they can to encourage
20 restaurants to serve real dairy products.

21 We also encourage dairy families, themselves, to use only natural dairy products and in
22 turn to encourage all homemakers, especially through the Extension Service and educational
23 institutions, to use only natural dairy products.

24 We encourage members to communicate regularly with their elected and appointed
25 officials.

26 We encourage the governors and state legislators in FUMMC's service region to use their
27 influence and authority to work for higher farm milk prices. Today's low milk prices are grossly
28 inadequate, and a healthy farm economy is essential to a healthy state economy.

29 15. COOPERATION

30 We direct the Cooperative's Board of Directors to work and to bring together other farm
31 and related groups who are interested in developing a dairy program which will ensure the
32 producers an equitable market price and the consumer a steady supply of quality product at
33 reasonable prices in a manner which will minimize farm program costs.

34 16. TAX POLICY

35 The federal tax code should be reformed to provide greater incentives for the survival of
36 the family farm and greater disincentives to the growth of large corporate farms. We seek reform

1 of current policies which encourage wealthy non-farm investors to use limited partnerships and
 2 other tax evasion schemes to buy into huge, drylot dairy operations and other industrial-type
 3 agricultural ventures for tax write-off purposes. The net result is unfair, publicly subsidized
 4 competition for family farmers and a significant loss of revenues to the U.S. Treasury.

5 We support efforts to restore the 25% deductibility of health care premiums and seek
 6 100% deductibility of such premiums for the self employed.

7 Be it resolved that the subsidizing of irrigated land by the federal government be halted
 8 immediately. Be it resolved that the \$125,000 capital gains exclusion on one's home that is not
 9 used be applicable to one's farm or business.

10 Members are encouraged to plan for the orderly transfer of farm assets to succeeding
 11 generations to minimize the tax burden and foster continuation of the family farm.

12 Farmers are bearing a disproportionate share of the property tax burden in funding
 13 education. We encourage the shift to other sources of school funding based on the ability to pay.

14 Be it resolved that the state legislature disallow the use of recent sales of agricultural
 15 property which has been sold for hunting, recreational and other purposes to set property tax
 16 valuations on other agricultural property in the townships.

17 **17. MEMBERSHIP**

18 We believe the Cooperative should push for a larger membership since the stronger the
 19 organization is, the more effective voice it will have when lobbying, and we encourage all
 20 members to advise field employees of potential members to be contacted.

21 **18. NATIONAL DAIRY PLANT SECURITY PROGRAM**

22 We support efforts to create a national dairy plant security program to provide dairy
 23 producers the same kind of protection now available to livestock producers under the Packers
 24 and Stockyards Act. This program will ensure farmers full payment in the event of a dairy plant
 25 bankruptcy.

26 **19. PUBLIC EDUCATION**

27 We urge FUMMC to develop and use advertising for public relations whenever
 28 financially feasible.

29 **20. FUMMC RELATIONS**

30 Be it resolved that FUMMC, National Farmers Union and state Farmers Union
 31 organizations keep trying to improve relations among themselves and work together for the
 32 betterment of family farmers.

33 **21. ANIMAL RIGHTS**

34 Whereas FUMMC is deeply concerned about the false claims and actions of animal rights
 35 groups which are based on misinformation on livestock production, therefore be it resolved that
 36 FUMMC work with extension and other concerned organizations to educate the public about up-

1 to-date livestock production.

2 22. ACTIONS OF THE BOARD OF DIRECTORS

3 Be it resolved that the actions of the Board of Directors in carrying on the business of
4 this cooperative during the past year be, and the same hereby are, ratified, approved and
5 acclaimed as and for the acts of the cooperative.

6 23. STAFF COMMENDATION

7 We commend FUMMC field representatives for their outstanding recruitment efforts
8 during the past year.

9 We commend the office staff and management for their services to FUMMC over the
10 past year.

11 24. WATER QUALITY

12 Farmers' great concerns with water quality problems urge this cooperative to take an
13 active role in solutions and urge all farm organizations to represent members' views on all issues
14 of water quality such as ground water and pollution of rivers and streams.

15 25. MILK QUALITY PREMIUMS

16 We commend state departments of agriculture in the region for studying the fairness of
17 present milk quality and volume premium structure.

18 26. WETLANDS POLICY

19 Whereas, the swamp buster provision of the 1990 farm bill has resulted in unfair
20 regulation of farmers. Be it resolved that areas classified as Type 1 and Type 2 wetlands should
21 not be regulated in any way.

22 Be it further resolved that any landowners who have areas of their farms classified as
23 wetlands be compensated with an annual payment for those acres. The payment should be equal
24 to the rental rate of agricultural land in the same area.

25 27. OSHA REFORM ACT

26 While we strongly encourage members to practice farm safety, farms employing 10 or
27 fewer employees should continue to be exempted from regulations under the OSHA Reform Act
28 of 1992.

29 28. MINIMUM MILK PRICING LAW

30 We urge adjacent states to examine implementation of minimum milk pricing bills
31 similar to the 1992 Minnesota minimum milk pricing law.

32 29. REFERRAL OF RESOLUTIONS

33 We direct management to bring these resolutions to the attention of appropriate
34 government officials, agencies and legislative bodies, and to keep members advised of action
35 taken in this regard.



United Egg Producers

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**STATEMENT OF ALBERT E. POPE
PRESIDENT, UNITED EGG PRODUCERS
BEFORE THE
LIVESTOCK SUBCOMMITTEE
HOUSE AGRICULTURE COMMITTEE**

**WEDNESDAY, FEBRUARY 24, 1993
9:30 a.m.**

Good Morning Chairman Volkmer and members of the Subcommittee. My name is Al Pope, and I am President of United Egg Producers (UEP), a cooperative representing 80% of the nation's egg production. I am also President of United Egg Association (UEA), which represents 90% of egg further processors. I am pleased to be here today to provide you with the egg industry's viewpoint on the egg checkoff program.

As you know, today more than ever in this increasingly competitive marketplace, it is imperative to advertise and promote your product and provide research in the areas of food nutrition and food safety. Additionally, constantly changing consumer preferences and increasing product choices make it harder and harder to maintain market share. This is especially true for basic agricultural commodities, which do not have the large marketing budgets of large food corporations.

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The egg industry, through its checkoff program, has been able to accomplish so much more than we could ever have achieved without it. We are a relatively small industry and, as such, do not have the resources to equip ourselves with the staffs and professionals that we would like to have under ideal circumstances. Believe me when I tell you that you are looking at twenty (20%) percent of the entire staff of UEP.

However, through the checkoff program, we now have the American Egg Board (AEB) -- an entire entity devoted to the promotion and advertising of our product, providing the much-needed research our industry needs to keep current in science and nutrition fronts, and keeping the public informed and aware about issues impacting eggs. From food safety to the diet/cholesterol issue, we have been able to reach more people, expand the scope of the debate on the components of a healthy diet, promote the proper cooking and handling of eggs and much more.

Now that the use of further processed, pasteurized product has expanded so significantly, AEB and UEA are working closely together to promote these value-added products, while of course continuing the traditional promotion of shell eggs.

Through AEB, we also have the Egg Nutrition Center (ENC) -- again, another organization with the single purpose of assisting egg producers and processors -- working to promote the positive nutritional characteristics of eggs, reaching out to the public to provide not only consumers, but health professionals, the scientific community, and the media, with

accurate information on eggs. We could not have achieved all of this on our own; there simply would not be the funds or resources available in the industry to accomplish what we can through a collective effort of this kind.

The egg industry has also benefitted from the public relations services provided to AEB, which help us respond in a professional manner to diet, health and nutrition debates, food safety concerns, and related issues. By working cooperatively with health organizations such as the American Dietetic Association and the Society for Nutrition Education, the egg industry has helped to advance the study of health and nutrition issues directly related to our product. Increased research has been a critical component of these efforts.

For instance, AEB funded a study to update USDA's information on the nutritional content of eggs, known as Handbook 8-1. The new research data found that eggs are 22% lower in cholesterol than previously reported and also low in saturated fat. The original study had been based on a small sample size and had not been updated in over 20 years.

On the basis of the study's results, the American Heart Association (AHA) increased its recommendations on egg yolk consumption from three to four per week. We were then also able to use this positive information in a publicity campaign to educate Americans about the lower cholesterol content of eggs and the change in AHA's recommendations.

In addition, research conducted of health professionals at the end of 1992 has demonstrated that the scientific community supports the fact that cholesterol is not the dietary culprit it was once believed to be. Health professionals have recommended that it is now time to tell this to the general public.

Again, having the ability as an industry to conduct such research and disseminate it to the public at large is a strong tool -- it empowers the industry to help themselves, without government expense.

We feel checkoff programs in general, and the egg checkoff program in particular, are excellent examples of the kinds of partnerships that can be formed between private industry and the government -- partnerships that work and are not a burden to the taxpayer.

The egg industry has the distinction of being one of the first commodity checkoff programs. Unfortunately, we do not have the distinction of being one of the best funded of such programs. While we have been at it for well over ten years, rising costs have had a dampening effect on the kinds of things our program can undertake. Television advertising costs, in particular, have soared to levels that have greatly limited our involvement.

Desite our modest funding level, AEB has demonstrated superior administrative skills and has consistently supplied us with the strongest programs within our means. The egg

industry has demonstrated its strong support for AEB over the years, most recently voting in a nationwide referendum to eliminate all program refunds.

With the confidence of the industry squarely behind AEB, the challenge now becomes to increase our program's funding levels and to find more creative ways to get our messages out to consumers. We are relying on AEB to help us respond to current and anticipated changes in the industry, which we believe will require an even greater effort than in the past.

One way we can help ourselves accomplish more through AEB is to increase the level of assessments paid under the checkoff program. Additionally, in order to successfully compete in the marketplace we must above all be creative and aggressive. Business as usual simply isn't good enough to meet both producer and consumer needs and demands.

The egg industry is currently pursuing legislation that will permit us, through a referendum vote, to increase our assessment level up to 30 cents a case. We probably will not reach this level right away, but we recognize the need to work toward a greater level of funding so that we can meet the challenges ahead.

By working together we believe this is indeed possible.

Thank you.

STATEMENT OF

JOHN RUSSO
CHAIRMAN
AMERICAN EGG BOARD

LIVESTOCK SUBCOMMITTEE
HOUSE AGRICULTURE COMMITTEE

February 24, 1993

I AM JOHN RUSSO, CHAIRMAN OF THE AMERICAN EGG BOARD AND EXECUTIVE VICE PRESIDENT OF CHICKADEE FARMS OF HOPE VALLEY, RHODE ISLAND. WITH ME IS LOUIS RAFFEL, WHO IS PRESIDENT, THE CHIEF STAFF POSITION, OF AEB.

MY TWO BROTHERS AND I RUN A FAMILY FARM IN RHODE ISLAND WITH APPROXIMATELY 100,000 HENS. WE SELL SHELL EGGS TO BOTH THE RETAIL GROCERY AND THE FOODSERVICE TRADE. IN ADDITION, WE PROCESS SOME OF OUR PRODUCTION INTO HARD BOILED-EGGS WHICH WE SELL TO FOODSERVICE ESTABLISHMENTS.

I APPRECIATE THE OPPORTUNITY TO PROVIDE THE SUBCOMMITTEE WITH A BRIEF OVERVIEW OF AEB'S ONGOING ACTIVITIES. PURPOSE OF THE AMERICAN EGG BOARD AS STATED IN THE EGG RESEARCH AND CONSUMER INFORMATION ACT IS "TO ENABLE EGG PRODUCERS TO ESTABLISH, FINANCE AND CARRY OUT A COORDINATED PROGRAM OF RESEARCH, PRODUCER AND CONSUMER EDUCATION, AND PROMOTION TO IMPROVE, MAINTAIN, AND DEVELOP MARKETS FOR EGGS, EGG PRODUCTS, SPENT FOWL AND PRODUCTS OF SPENT FOWL.

WE RECOGNIZE OUR RESPONSIBILITIES TO CONDUCT PROGRAMS THAT ARE IN THE BEST INTERESTS NOT ONLY OF EGG PRODUCERS, BUT ALSO OF THE CONSUMING PUBLIC. WE ARE ALSO AWARE OF THE REQUIREMENTS TO CONFORM TO THE REGULATIONS AND STANDARDS ESTABLISHED BY THE CONGRESS AND U.S. DEPARTMENT OF AGRICULTURE.

AEB BEGAN ITS FIRST ADVERTISING CAMPAIGN IN 1977. IN THAT YEAR, AEB SPENT APPROXIMATELY \$3.5 MILLION ON MEDIA ADVERTISING. IT WAS MOSTLY TELEVISION ADVERTISING RUN IN A COMBINATION OF NETWORK TV AND SPOT COMMERCIALS IN THE TOP 20 MARKETS. THERE WERE SEVERAL INDEPENDENT RESEARCH STUDIES DEMONSTRATING THAT THE CAMPAIGN WAS EFFECTIVE.

BY 1987, BOTH AEB'S REFUND RATE AND GENERAL INFLATION HAD RISEN SUBSTANTIALLY, MAKING EFFECTIVE CONSUMER ADVERTISING DIFFICULT. TO ATTEMPT TO DEVELOP BROAD BASED SUPPORT FOR AEB AND REDUCE THE REFUND RATE, AEB ELIMINATED CONSUMER ADVERTISING ENTIRELY AND LOWERED THE ASSESSMENT FROM FIVE CENTS PER CASE TO TWO-AND-A-HALF CENTS PER CASE.

IN 1989, AFTER INFORMAL SURVEYS OF THE INDUSTRY INDICATED SUPPORT FOR A MANDATORY PROGRAM AND A RETURN TO CONSUMER ADVERTISING, THE LAW AND THE ORDER WERE AMENDED TO REMOVE THE REFUND PROVISION. SUBSEQUENTLY, IN 1990, PRODUCERS RATIFIED THE REMOVAL OF THE REFUND PROVISION. WHEN THE ASSESSMENT BECAME MANDATORY, THE ASSESSMENT WAS RAISED BACK TO FIVE CENTS PER CASE AND AEB RETURNED TO CONSUMER ADVERTISING.

- 2 -

THIS TIME WITH A \$3.5 MILLION BUDGET, THE MOST COST EFFECTIVE TARGET AUDIENCE WAS CHILDREN. ANIMATED TV COMMERCIALS BEGAN RUNNING ON SYNDICATED CHILDREN'S TV SHOWS AND CONTINUED THROUGH THE FIRST THREE QUARTERS OF 1992.

IN 1992, THE COST OF CHILDREN'S TV ALSO BEGAN TO CLIMB AND THE BOARD ASKED THAT THE MARKETPLACE BE REVIEWED TO DETERMINE IF CHILDREN WERE STILL THE MOST COST EFFECTIVE AUDIENCE FOR ITS ADVERTISING. EARLY THIS YEAR, THE BOARD DECIDED TO CONDUCT A REVIEW OF ADVERTISING AGENCIES TO DETERMINE IF THERE ARE BETTER STRATEGIES FOR ITS ADVERTISING DOLLARS. THE REVIEW WILL TAKE PLACE THIS SPRING AND RECOMMENDATIONS FOR ADVERTISING STRATEGIES WILL BE PRESENTED TO THE BOARD AT ITS MEETING IN JULY.

FROM 1977 TO 1982, AEB MADE GRANTS TO LEADING RESEARCH SCIENTISTS TALLING NEARLY \$3 MILLION. WE SELECTED A SCIENTIFIC REVIEW PANEL OF RENOWNED SCIENTISTS TO HELP US SELECT IMPORTANT RESEARCH AND OBJECTIVE RESEARCHERS IN THE CHOLESTEROL AREA. IN 1983, AEB RELUCTANTLY ELIMINATED ITS NUTRITION RESEARCH PROGRAM IN ORDER TO CONCENTRATE DECLINING FUNDS INTO ADVERTISING.

HOWEVER, IN 1984, AEB RETURNED TO THE NUTRITION FIELD IN A DIFFERENT FORMAT. IN RESPONSE TO MAJOR NEGATIVE PUBLICITY ON EGGS AND CHOLESTEROL, AEB ESTABLISHED A NEW CHOLESTEROL ACTION PROGRAM. THIS PROGRAM HAD A TWO-PRONGED APPROACH. FIRST, AEB FUNDED AN EGG NUTRITION CENTER, WHICH IS MANAGED UNDER CONTRACT BY UNITED EGG PRODUCERS. THE FUNCTION OF THE EGG NUTRITION CENTER IS TO BE A SOURCE OF CREDIBLE INFORMATION ON EGG NUTRITION FOR HEALTH PROFESSIONALS, MEDIA AND OTHERS. THE CENTER RESPONDS TO MISINFORMATION IN THE MEDIA AND CONDUCTS INFORMATION PROGRAMS TO DISSEMINATE POSITIVE EGG NUTRITION DATA.

THE SECOND PART OF THE CHOLESTEROL ACTION PROGRAM WAS A PRO-ACTIVE PUBLIC RELATIONS CAMPAIGN DESIGNED PRIMARILY TO INFORM MEDIA OF THE POSITIVE BENEFITS OF EGGS AND TO INSURE BALANCE IN MEDIA REPORTS ON CHOLESTEROL. THESE TWO PARTS ARE INTERRELATED AND WORK CLOSELY TOGETHER. BOTH ARE GUIDED BY A SCIENTIFIC ADVISORY PANEL OF RESPECTED SCIENTISTS.

IN THE PAST FEW YEARS, THE WORK OF THE EGG NUTRITION CENTER AND THE PUBLIC RELATIONS PROGRAM HAS BEEN EXPANDED TO INCLUDE EDUCATION AND COMMUNICATIONS ON SALMONELLA ENTERITIDIS AND FOOD SAFETY. ALSO, RESEARCH GRANTS TO UNIVERSITIES HAVE BEEN RESUMED AND FROM 1991 THROUGH 1993, AEB HAS APPROVED GRANTS OF OVER \$1 MILLION. UNIVERSITIES RECEIVING AEB RESEARCH GRANTS INCLUDE COLUMBIA UNIVERSITY, UNIVERSITY OF MASSACHUSETTS, UNIVERSITY OF WASHINGTON, TUFTS UNIVERSITY AND THE UNIVERSITY OF ARIZONA.

AS MENTIONED, FOOD SAFETY HAS ALSO BECOME A LARGE PART OF ALL OF AEB'S CURRENT ACTIVITIES, NOT ONLY IN OUR NUTRITION PROGRAMS, BUT ALSO IN FOODSERVICE AND CONSUMER AREAS. A SPECIAL FOOD SAFETY EDUCATION PROGRAM HAS BEEN ESTABLISHED IN THE NORTHEAST PART OF THE COUNTRY WHERE THE GREATEST NUMBER OF SALMONELLA OUTBREAKS ASSOCIATED WITH EGGS HAVE OCCURRED. ALMOST ALL OUTBREAKS HAVE BEEN ASSOCIATED WITH ABUSE OF THE PRODUCT. BY EMPHASIZING FOOD SAFETY, WE BELIEVE WE CAN HELP REDUCE THE INCIDENCE OF OUTBREAKS, WHILE GOVERNMENT AGENCIES AND OTHER ORGANIZATIONS SEARCH FOR WAYS TO ELIMINATE THE PROBLEM FROM THE FOOD SUPPLY.

- 3 -

IN ADDITION, ALL AEB INFORMATION AND EDUCATION PROGRAMS CONDUCTED IN THE NUTRITION AND FOOD SAFETY AREAS ARE REVIEWED AND ARE CONSISTENT WITH THE INFORMATION AND RECOMMENDATIONS ISSUED BY USDA AND OTHER FEDERAL AGENCIES.

ALSO FROM 1977 THROUGH 1983, AEB PROVIDED GRANTS TO UNIVERSITY SCIENTISTS FOR THE DEVELOPMENT OF NEW PRODUCTS AND EGG TECHNOLOGY. WHILE SOME OF THE TECHNOLOGY PROVED USEFUL, MOST OF THE PRODUCTS DEVELOPED NEVER REACHED THE MARKETPLACE. THEREFORE, IN 1984, AEB CHANGED ITS NEW PRODUCTS APPROACH TO CONCENTRATE ON COMMUNICATING WITH FOOD MANUFACTURERS TO INFORM THEM OF THE POTENTIAL FOR MARKETING NEW EGG PRODUCTS.

IN RECOGNITION OF THE GROWING IMPORTANCE OF FOODSERVICE IN THE CONSUMPTION OF EGGS, AEB BEGAN A FORMAL FOODSERVICE PROGRAM IN 1980. STARTING WITH ADVERTISING IN FOODSERVICE TRADE PUBLICATIONS, THE PROGRAM HAS GROWN OVER THE YEARS AND NOW INCLUDES NEWSLETTERS FOR RESTAURANT AND INSTITUTIONAL OPERATORS, TRADE SHOW PARTICIPATION, DISTRIBUTOR COMMUNICATIONS, PUBLICITY ACTIVITIES, INVOLVEMENT IN GOVERNMENT FEEDING PROGRAMS FOR BOTH EGG PRODUCTS AND THE PRODUCTS OF SPENT FOWL AND MANY OTHER PROJECTS.

AEB ALSO CONDUCTS A STRONG CONSUMER EDUCATION PROGRAM. INCLUDED IN THIS AREA HAVE BEEN NEWSPAPER AND MAGAZINE PUBLICITY; DEVELOPMENT OF PRINTED MATERIALS; SEMINARS FOR HOME ECONOMISTS; EDUCATIONAL MATERIALS FOR SCHOOLS; AND OMELET WORKSHOPS FEATURING AEB'S HOWARD HELMER, WHO HAS DONE SUCH DEMONSTRATIONS IN THE PAST FOR THE HOUSE AGRICULTURE COMMITTEE.

AEB ALSO PROVIDES SUPPORT, BOTH FUNDING AND PROGRAMMING, TO THE STATE AND REGIONAL EGG PROMOTION ORGANIZATIONS TO ASSIST IN PROMOTING EGGS MORE EFFECTIVELY ON A LOCAL LEVEL.

NEWSLETTERS, SPECIAL MAILINGS, ANNUAL REPORTS, PRESENTATIONS AT INDUSTRY MEETINGS, BOARD MEMBER MAILINGS AND OTHER COMMUNICATIONS TECHNIQUES ARE USED TO KEEP PRODUCERS FULLY INFORMED ABOUT HOW THEIR ASSESSMENTS ARE BEING SPENT.

OUR CURRENT ADMINISTRATIVE COSTS ARE APPROXIMATELY 3% OF EXPENDITURES. IN GENERAL, WE RECEIVE EXCELLENT COOPERATION FROM EGG PRODUCERS AND HANDLERS IN THE COLLECTION OF ASSESSMENTS. WE BELIEVE COMPLIANCE WILL IMPROVE EVEN MORE WHEN A PENDING REGULATION IS ISSUED IMPOSING A LATE CHARGE ON UNPAID BALANCES OF 1.5% MONTHLY.

OF NECESSITY, THIS HAS BEEN AN EXTREMELY LIMITED OVERVIEW OF AEB'S PROGRAMS AND ACTIVITIES. AEB'S 1992 ANNUAL REPORT IS CURRENTLY BEING PRINTED. I HAVE A PROOF COPY WITH ME. THIS REPORT CONTAINS MORE DETAILED INFORMATION ON CURRENT PROGRAMS AS WELL AS A FINANCIAL REPORT. I WILL HAVE COPIES OF THE COMPLETED ANNUAL REPORT MAILED TO EACH MEMBER OF THE SUBCOMMITTEE WITHIN THE NEXT TWO WEEKS.

I'M GRATEFUL FOR THIS OPPORTUNITY TO INFORM THE SUBCOMMITTEE ABOUT WHAT AEB HAS BEEN DOING. WE ARE PROUD OF OUR ACCOMPLISHMENTS AT AEB AND BELIEVE THAT GENERIC PROMOTION CONTINUES TO BE EFFECTIVE FOR THE EGG INDUSTRY.

NATIONAL CATTLEMEN'S ASSOCIATION

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Testimony

on behalf of the

NATIONAL CATTLEMEN'S ASSOCIATION

regarding

Beef Checkoff Program

before the

**Subcommittee on Livestock
House Committee on Agriculture**

submitted by

Dan Koons, President-Elect
Shirley, Illinois
National Cattlemen's Association

February 24, 1993

The National Cattlemen's Association is the national spokesman for all segments of the beef cattle industry -- including cattle breeders, producers, and feeders. The NCA represents approximately 230,000 cattlemen. Membership includes individual members as well as 46 affiliated state cattle associations and 29 national breed associations.

Mr. Chairman, my name is Dan Koons. I am President-Elect of the National Cattlemen's Association and a farmer-feeder from Shirley, Illinois. I'm here representing 230,000 cattle producers affiliated with the National Cattlemen's Association and our state cattle associations and national breed associations.

I'm pleased to represent the National Cattlemen's Association at this hearing because NCA has played a major role in the development, passage and implementation of the beef checkoff program. NCA is the primary, constituency-based organization representing the U.S. cattle industry. NCA represents, and is accountable to, beef producers at the grassroots level. We feel a strong accountability to our constituency, indeed, to all beef producers who pay the checkoff dollar, to make sure the beef checkoff program operates properly and to the producers' benefit.

NCA's constituency holds the majority stake in the beef checkoff program. NCA and the 230,000 producer members of its affiliated organizations account for about 70 percent of the total U.S. cattle herd. That's about 70 million cattle.

NCA was a long-time supporter of the need for a national checkoff program to strengthen the competitiveness of beef in the marketplace and improve the long-term profitability of beef producers.

Although many individual states had beef checkoff programs for a number of years, the benefits of a national beef checkoff have long been recognized. There were a couple of unsuccessful attempts to create a national checkoff before the current program was passed by Congress in 1985. I think it's important to understand why those earlier efforts failed while the 1985 initiative was successful.

NCA served as the focal point for establishing agreement among the various industry groups and stockholders on the common need for a checkoff. We undertook the task of working with producers and industry organizations to design an acceptable mechanism to satisfy that need. We brought the checkoff initiative to Washington and we worked with Congress to draft checkoff legislation to ensure this would be a program run for producers by producers.

The fact that NCA help give birth to the beef checkoff makes our accountability for its continued success even stronger.

The major reason for the success of the 1985 initiative is that those who drafted the plan listened more closely to what producers wanted.

Those earlier checkoff initiatives didn't fail because producers thought a national checkoff was a bad idea. Instead, they failed because industry leaders didn't listen carefully enough to producers at the grassroots level and how they wanted a checkoff to operate. As a result, neither producers nor key agricultural organizations fully supported the earlier checkoff initiatives.

The 1985 initiative was successful because this time we did listen very carefully to producers. And we designed a checkoff program based on what producers wanted. We talked to producers. We surveyed them on their needs and wants. We talked to state and national agricultural organizations. And from listening to the grassroots, we developed four basic principles that make the current beef checkoff program successful.

Those four corner posts are:

Number one: Everybody pays.

We found that producers wanted everyone, including importers, to pay the checkoff dollar. That meant a mandatory program. Everybody pays because everybody benefits. Nobody gets a free ride. It's an equitable system.

Number two: Producers control the program.

The beef checkoff is controlled by beef producers through an independent board -- the Beef Promotion and Research Board. Its members are appointed by the Secretary of Agriculture from nominations submitted from membership organizations at the state level. So, if you ask -- who is accountable for the checkoff program? -- beef producers are accountable.

Number three: No bureaucracy.

Producers wanted to prevent unnecessary duplication and coordinate all dollars within the industry. To assure this, the Beef Promotion and Research Act requires that all programs be implemented through existing, non-profit, beef industry-governed organizations. This allows the Beef Board to operate the checkoff within an administrative budget of 5 percent as required by law.

and Number four: Local control.

In 44 states there are state beef councils which control up to 50 cents of every checkoff dollar they collect. The state councils invest those funds in state, national and international programs in accordance with the Act and Order.

I think the strength of these four main principles is evident both in the success of the checkoff program to date and in the widespread support it has received from the agriculture industry.

Clearly, producers believe in the program. In the May 1988 referendum, producers supported continuation of the program with a nearly 80 percent "yes" vote.

In addition, some 35 national agricultural organizations and more than 200 state organizations actively supported the passage of the beef checkoff referendum. These included beef cattle, veal and dairy associations, general farm organizations and many others.

I think that kind of support is evidence of the soundness of the beef checkoff program and a recognition of the importance of its purpose. The importance of the beef industry is clearly stated in the Act. The findings and declaration of policy in Section 2(a) of the Act includes the following report language:

- the production of beef and beef products play a significant role in the Nation's economy, beef and beef products are produced by hundreds of thousands of beef producers and processed by numerous processing entities, and beef and beef products are consumed by millions of people throughout the United States and foreign countries.

- beef and beef products should be readily available and marketed efficiently to ensure that the people of the United States and the world receive adequate nutrition.
- the maintenance and expansion of existing markets for beef and beef products are vital to the welfare of beef producers and those concerned with marketing, using, and producing beef products, as well as to the general economy of the nation.

We accomplish this, Mr. Chairman, by utilizing renewable natural resources, such as grass and other forages from land that is generally not suitable for crop production.

Section 2(b) of the Act defines the checkoff's purpose as authorizing "the establishment, through the exercise of powers provided herein, of an orderly procedure for financing (through assessments on all cattle sold in the United State and on cattle, beef and beef products imported into the United States) and carrying out a coordinated program of promotion and research designed to strengthen the beef industry's position in the marketplace and to maintain and expand domestic and foreign markets and uses for beef and beef products."

The beef checkoff has adapted and changed as necessary to meet producer and consumer needs. We are continually reviewing the Act, the legislative history, the Order and the Cattlemen's Beef Board's official actions and guidelines to be sure we're all doing things right.

Mr. Chairman, while we are accountable to do things right, we're also accountable to do the right things well! You will hear from the Cattlemen's Beef Board and the Beef Industry Council about details of administration, oversight, foreign and domestic marketing and promotion, education, public relations, issues management and more. Several organizations of the beef industry must always be acting together to make the program successful.

The beef checkoff is working. And, we say that with a great deal of pride and confidence. We ask you to consider the following:

The "Ward Study" formally known as the **Economic Analysis of Beef Checkoff Programs** conducted by Dr. Ronald Ward, University of Florida, shows that prices for fed cattle were \$2.00/cwt. higher (a 2.96 percent price increase) during the last half of 1990 and the first half of 1991 than they would have been without national checkoff programs. Program expenditures were curtailed during the last half of 1991 due to the hiatus in the promotion program. Consequently, fed cattle prices during the last half of 1991 and the first half of 1992 averaged only \$1.20/cwt. (1.86 percent) higher than they would have been without the national checkoff program. Rate of return to the checkoff has averaged \$5.8 for every checkoff dollar collected over the entire life of the program (first quarter of 1987 through second quarter of 1992, inclusive.) The analysis also shows that returns to information programs are comparable to returns from promotion and that promotion programs are relatively more effective with information programs in place than they would be in the absence of information programs. Beef demand during the first half of 1992 was 75 percent of demand levels at the start of 1979 after adjusting for inflation according to Ward. Demand would have been only 71 percent of 1979 levels without the checkoff.

Investors in the checkoff continue to express support. Each year a survey is conducted to determine the level of support for the checkoff among cattlemen, dairymen and importers. Every year since passage of the referendum in 1988, 80 percent or more of the beef producers nationwide have expressed approval of the checkoff.

NCA is presently involved with several Beef Board projects and conducts projects which greatly enhance the producers' ability to compete in the consumer marketplace. Some of the programs NCA conducts include:

1. The **War on Fat** is a comprehensive effort to substantially reduce the amount of trimmable waste fat being produced by the industry. Winning the war on fat will make our product more economical and more appealing to today's health conscious consumers. It is not enough to promote what we produce, we must make efforts to produce what consumers want.

2. The **Beef Quality Assurance Program** is helping cattlemen adjust to the new levels of consumer expectations about food safety that go above and beyond the requirements of the government. This is an educational program that helps cattlemen make extra sure that they are producing beef that is safe. Beef's residue record is very impressive, and we intend to ensure that it stays that way.

3. The **Beef Issues Management Program** keeps cattlemen informed about the issues that affect the marketing environment for beef. An informed industry can respond much quicker than one that is not informed.

4. The **Industry Public Relations Program** helps communicate the facts about beef and the beef industry during a time when the myths would otherwise dominate the headlines.

5. The **National Beef Quality Audit**, completed in 1992, gives the cattle industry direction for improving both the consistency and the economy of beef. It is a move toward implementing the concepts of Total Quality Management in the beef industry.

NCA understands very clearly that checkoff dollars can't be used for lobbying. NCA uses dues dollars to conduct its lobbying activities.

In summary, Mr. Chairman, the National Cattlemen's Association sees substantial evidence that the beef checkoff program is working -- that is, it's benefitting the grassroots producer who pays the dollar.

Mr. Chairman, I thank you for the opportunity to speak before this subcommittee and I will be happy to answer any questions at the appropriate time.

**Statement of the
Cattlemen's Beef Promotion and Research Board**

**before the
Subcommittee on Livestock
Committee on Agriculture
U.S. House of Representatives
Washington, D.C.**

**on
Beef Promotion and Research Act of 1985
February 24, 1993**

**Presented by: Martha E. Hanson, Chairman
Cattlemen's Beef Promotion and Research Board
Englewood, Colorado**

Mr. Chairman, my name is Mardie Hanson. I am a cattleman from Cowdrey, Colorado. I am also chairman of the Cattlemen's Beef Promotion and Research Board, which was established by Congress to administer the Beef Promotion and Research Order according to its terms and provisions.

My purpose in appearing before you today is to discuss three basic topics of vital importance to the nation's beef producers represented by the Beef Board -- (1) the issue of accountability for the Beef Checkoff Program, (2) the structure and process in place to implement beef promotion and research programs while providing that accountability, and (3) the perceptions beef producers have about their checkoff program.

ACCOUNTABILITY

Perhaps the most important function of the Beef Board is to serve as a mechanism to insure accountability throughout the entire beef checkoff program -- accountability not only to Congress through the U.S. Department of Agriculture and your subcommittee, Mr. Chairman, but ultimately to the cattle producer who invests in this program through his checkoff dollars.

We take that responsibility very seriously.

To help assure accountability to Congress through USDA, all budgets of the Beef Board are submitted to USDA for approval. In addition, each individual project is approved by USDA. Further, the contract with the industry organization carrying out that project is approved by USDA before work begins or expenses are incurred on that particular project.

We operate on a cost reimbursement system with each industry organization contracting with the Beef Board, and all such costs are supported by appropriate documentation. The Beef Board's own administrative costs are limited to no more than 5 percent, and we have kept those costs well below that ceiling.

STRUCTURE AND PROCESS

At present, the Cattlemen's Beef Promotion and Research Board consists of 111 members. Of that number, 105 represent cattle producers and six represent importers. Each member is appointed by the Secretary of Agriculture after consideration of nominees from certified membership organizations.

The order provides for geographic distribution of board members according to cattle numbers in their respective states and regions. The board also includes representation

from all different types of producers, including cow-calf, feedlot, stocker cattle, dairy, and veal producers as well as importers.

Our board takes very seriously its obligations to ensure that the desires of the producers who invest in the Beef Checkoff are carried out consistent with the provisions of the Beef Promotion and Research Act and Order. The board meets two times annually as a full board and conducts the balance of its business through a system of committees.

The Beef Board recognizes that it has several key responsibilities in implementing the Beef Promotion and Research Act and Order.

First, it must ensure that systems are in place to collect the \$1 per head beef checkoff whenever cattle are sold. It is also the Board's responsibility to certify qualified state beef councils in individual states as the entity responsible for overseeing the collection function within each state. Once certified by the Board, these state beef councils are eligible to retain one-half of the checkoff collection for beef promotion and research activities to be determined by their own producer controlled state board. We now have qualified state beef councils in 44 of the 50 states.

It is also a Beef Board responsibility to ensure that each of these state beef councils comply with all aspects of the Act and the Order. To assist in that process, the Board has established a set of guidelines to help state beef councils determine the appropriateness of proposed expenditures. In addition, we require each state beef council to furnish to the Board annually a marketing plan which outlines expenditures, an audited financial statement which has been examined by an independent certified public accountant, and a certification statement signed by both the qualified state beef council chairman and chief staff executive assuring that all expenditures were consistent with the Act, the Order, and the Board's guidelines.

From time to time, the Board has conducted audits of state beef councils as an additional measure to assure compliance with the Act and Order.

IMPLEMENTATION

The Beef Board establishes and approves its budget on an annual basis. Within that budget, individual projects are considered by an Operating Committee which meets quarterly. For funding, a project must be approved by both the Operating Committee and USDA. The Operating Committee then contracts with various industry organizations to conduct programs in four areas defined by the Order as eligible for beef checkoff funding: promotion, consumer information, industry information, and research.

The Act and the Order direct that we use existing industry expertise and organizations to the maximum extent possible in order to avoid building any unnecessary bureaucracies

and assure peak efficiency. Accordingly, all beef promotion and research projects are carried out through non-profit, producer-governed, beef industry organizations. Those organizations are, in turn, held accountable to the Beef Board and, ultimately, to the United States Department of Agriculture.

Although there are several eligible industry organizations who are invited to submit proposals, the major participants are the Beef Industry Council of the National Live Stock and Meat Board, the National Cattlemen's Association, and the United States Meat Export Federation.

The Beef Industry Council (BIC) is the largest of the three in terms of the scope of the programs it coordinates. The BIC is our primary contractor for promotion and advertising, consumer information, and research. The Beef Industry Council fulfills a dual role: (both as (1) the major contractor for Beef Board funded programs, and (2) the Federation of State Beef Councils. As a federation of state beef councils, the BIC helps coordinate state and national checkoff dollars and programs. Most state beef councils contribute a significant portion of their fifty cents of the checkoff dollar to the BIC to supplement national programs funded by the Beef Board.

BIC's dual role has given rise to a concern that some have described as a "conflict of interest." As a Federation of State Beef Councils, the BIC is entitled by the Act and Order to elect half the members of the Operating Committee which makes Beef Board funding decisions. However, this has been perceived by some as a "conflict of interest" when BIC also comes to the same Operating Committee with proposals seeking Beef Board funds.

To resolve the issue, the elected officers of both the Beef Board and Beef Industry Council have adopted an agreement which calls for those Operating Committee representatives previously elected by the BIC to be directly nominated and elected by state beef councils. This agreement was unanimously approved by members of the Beef Board. A copy of the agreement is attached as Exhibit I. Once implemented, we believe this new election procedure will resolve the conflict of interest problem.

When this issue was first raised as the subject of editorials in some beef industry publications almost one year ago, this committee asked us to report the amounts of checkoff funds spent by each contracting organization. An update of that information has been provided as Exhibit II. It shows expenditures for programs managed by each of the contracting organizations since the checkoff's inception.

Beef checkoff funded foreign market development activities are coordinated primarily through the U.S. Meat Export Federation. This organization is in the unique position of being able to combine U.S.D.A. Market Promotion Program funds with beef checkoff dollars to multiply the effectiveness of both programs.

Programs in industry information -- designed to create a positive marketing climate for beef by enhancing the image of the cattle industry -- are coordinated through primarily the National Cattlemen's Association.

Other contracting organizations have also conducted programs, but these three (BIC, MEF, and NCA) have been the major participants thus far. The Act defines the program areas in which Beef Checkoff funds may be used. Since the inception of our program, we have devoted \$188,951,154 to promotion, \$23,606,436 to Research, \$29,627,695 to Consumer Information, \$20,395,229 to Industry Information, \$17,823,535 to Foreign Marketing, and \$9,268,021 to Producer Communications.

Lobbying with checkoff dollars is specifically prohibited, and we have controls in place to see that those contracting organizations which also engage in lobbying activities are not permitted to use checkoff dollars for that purpose.

Contracting organizations are reimbursed on a cost-recovery basis for the expenses they incur on behalf of the Beef Board while carrying out these programs. In other words, they are entitled to recover all cost incurred under approved Beef Board projects, but they should not profit from their relationships with the Board. We conduct periodic contract compliance audits with each national contracting organization to insure that this standard is met.

During the past year, the Beef Board has placed additional emphasis on evaluating the impact of checkoff funded programs.

We have always been willing to submit our program to independent study in order to measure its effectiveness. One such effort, conducted by economist Dr. Ronald Ward at the University of Florida, measures the overall impact of the checkoff program. Dr. Ward has concluded that beef checkoff programs have significantly improved beef demand. In fact, his studies concluded that prices received by beef producers are about \$1.44 per hundredweight higher than they would have been without the checkoff. Further, he estimates that producers have received a return of \$5.80 for every dollar invested since our program began in October 1987.

We are pleased with such an excellent overall result. However, we see the need to evaluate individual projects within the total checkoff program to determine where we can improve effectiveness even more.

PRODUCER PERCEPTIONS

We have established a producer communications program to inform producers about how their investment is being spent -- but beyond that, and perhaps even more important -- we have structured our producer communications program to also seek and receive

feedback from producers on what they think about the checkoff and the programs it provides as well as their suggestions for improvement.

We are pleased to report that our latest producer attitude survey, conducted by an independent firm, indicates that 80 percent of the producers across the country are well pleased with their checkoff program. That is even higher than the percentage yes vote at the time of the referendum. Producers seem to feel their program is working as intended, and they want to see it continue.

Should they ever be dissatisfied, producers have retained the right to request, at any time, a referendum to determine whether the beef checkoff program should be continued. We are not aware of any such request pending. In fact, the referendum held in May of 1988 to determine whether our mandatory checkoff should continue, passed by an overwhelming 78.9 percent of all producers voting. Our sense is that this high level of support continues unabated. Part of the reason is that producers are well represented at all levels of the checkoff program.

Included with this testimony are two publications which provide considerably more detail about checkoff expenditures: (1) an evaluation report covering each individual project funded by beef checkoff dollars during Fiscal Year 1992 (Exhibit III), and (2) a copy of the Beef Board's 1992 annual report (Exhibit IV).

In summary, we believe the beef checkoff program is functioning as Congress intended. We believe the program is working well, and we have established a comprehensive evaluation system to cause it to function even better in the future. We have controls in place to ensure that no checkoff dollars are spent to influence legislation or government policy or for any other purpose not consistent with the Act and the Order. And we believe every evaluation of our program thus far indicates that it has been effective in improving demand for beef, and ultimately, enhancing profitability for those who invest in the program.

(Attachments follow:)

In order to reach agreement over the "conflict of interest issue", the Cattlemen's Beef Board and the Beef Industry Council agree that the eight members of the Operating Committee currently elected by the Beef Industry Council (BIC) in the future will be nominated and directly elected by the Qualified State Beef Councils through a process to be developed by the Q.S.B.C.

Those members eligible for Operating Committee election shall be members of the Qualified State Beef Councils' Boards of Directors and may or may not be members of the Beef Industry Council Board of Directors but shall not be members of the Cattlemen's Beef Board.

The BIC agrees to end its current procedure of directly electing the Federation's eight members to the Operating Committee.

The officers of both the Cattlemen's Beef Board and the Beef Industry Council agree that implementation of this agreement will end the conflict of interest issue.

The BIC Leadership has agreed to the concept and recommend its support by the full BIC Board of Directors.

Exhibit II

BEEF PROMOTION AND RESEARCH BOARD

Summary of Program Expenses
Inception (October 1, 1986) through September 30, 1992
and Budgeted Program Expenses
October 1, 1992 through September 30, 1993

Contractor	Actual Expenses:					Budgeted Expenses: * 1993	Totals Inception- to-date	% of Total Program Expenses
	1987	1988	1989	1990	1991	1992		
Beef Industry Council	\$23,242,032	\$30,456,078	\$36,221,721	\$37,055,040	\$37,888,650	\$33,360,929	\$236,834,667	81.70%
National Cattlemen's Association	201,243	3,383,319	2,294,107	4,123,982	4,880,111	4,883,530	25,886,118	8.93%
U.S. Meat Export Federation	0	600,000	1,247,025	3,131,230	3,417,899	6,317,086	20,654,047	7.12%
Cattlemen's Beef Board	24,975	129,488	165,496	594,697	481,372	497,933	868,928	0.95%
American National Cattle Women	0	0	127,620	187,500	208,343	409,213	1,594,776	0.55%
National Renderers Association	0	0	0	111,542	254,371	481,536	1,329,601	0.46%
American Meat Institute	0	0	0	0	0	140,000	740,000	0.26%
Meat Importers Council	0	0	35,226	58,715	2,790	0	96,731	0.03%
Totals	\$23,468,250	\$34,568,885	\$40,091,195	\$45,262,706	\$47,133,536	\$46,090,227	\$289,898,829	100.00%

Includes budgeted programs carried forward from previous years to be completed during fiscal 1993.

BEEF



The BEEF BOARD

1992

ANNUAL REPORT



Marcel S. ...

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CHAIRMAN'S LETTER

If there's one thing I have emphasized above all others since I began my term as Beef Board chairman, it's "accountability." I believe that you, the producer/checkoff investor, should hold me and the entire Board accountable for your investment.

It's only right. Dollars don't come easy in the cattle business. So it took some foresight and considerable soul-searching for you to first, decide we needed a checkoff program and second, to support it as you have with your dollars. We're a different industry now than we were five years ago when the program was first approved. We have different needs as an industry and we have different game plans to help us meet those needs. But whatever else happens, there is one need that remains constant—the need for accountability. My philosophy for the Beef Board has been, *"The buck starts here and it stops here."*

At the beginning of my term, I outlined three areas in which the Beef Board needed to become more assertive. These areas were *long-range planning, budgeting and evaluation*, all inter-related components of our programs. *Long-range planning* outlines our objectives and drives resource allocation through the *budgeting* process and the resulting programs are carefully monitored and *evaluated* to assure that we



continue to invest where we'll get the best return. It's all part of accountability.

There's another, even more basic level of accountability too. Congress and USDA hold the Beef Board accountable for administering and implementing the checkoff in accordance with the Beef Promotion and Research Act and Order. This is a primary, legal responsibility and one that can sometimes cause dissension in our ranks.

At times, Board members find themselves in the "hot seat." Why? Because it's part of our job to ask tough questions, to raise troubling issues and even to take unpopular stands when we have to. If we didn't, who would? If we took the easy way out and simply avoided the hard issues, they wouldn't be raised. And we wouldn't be accountable.

The Beef Board addressed one difficult issue at its 1992 summer meeting. We took a position that no contracting organization seeking Beef Board funding should also directly elect members to the

Operating Committee. This decision could affect the Beef Industry Council which is entitled to elect half (10 members) of the Operating Committee. We wrestled long and hard with this issue and concluded that the current Operating Committee structure creates the perception of a conflict of interest and that modification is needed.

I report this action not to renew debate on its merits, nor to gain your support, but rather to illustrate the gravity with which your Beef Board members face their responsibilities. By taking a stand, the Board accepts accountability for the checkoff program—accountability to you, the investor, as well as to those who have oversight responsibilities. Make no mistake. We take our job very seriously.

The overall state of our checkoff-funded programs is good. I am pleased to report that they are paying substantial dividends for the industry. A comprehensive analysis by Dr. Ron Ward of the University of Florida showed we received a return of more than \$5 for every \$1 invested. But I think we can do even better. We need to reclaim our share of the market. That's no easy task. And we need to make sure our investors receive an even greater return on their checkoff dollars. As you read through this report, I hope you'll agree that we're on the right path.

It has been an honor to serve you this past year.

Ronnie B. Holladay
Ronnie Holladay, Chairman



(The complete report is held in the committee files.)



BEEF INDUSTRY COUNCIL • A Division of the National Live Stock & Meat Board

Statement of the
BEEF INDUSTRY COUNCIL
a division of the
NATIONAL LIVE STOCK AND MEAT BOARD

Before the
Subcommittee on Livestock
Committee on Agriculture
U.S. House of Representatives
Washington, D.C.

on

Beef Promotion and Research Act of 1985

February 24, 1993

Presented by:
Raymond L. Larson, Chairman
Beef Industry Council
Maple Park, Illinois



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Beef Industry Council a division of the **National Live Stock and Meat Board**

Officers **1992-1993**

Chairman Ray Larson Maple Park, Illinois	Chairman-Elect Ralph Bell, Jr. Summerton, South Carolina	Treasurer James G. Owen Tyler, Texas	Executive Vice President/Secretary Jay H. Wardell Chicago, Illinois
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Philip E. Bauer Western States Meat Association	Miles Daves National Grange	Ernest Reeves Virginia Beef Director	Butch Van Veldhuizen Oregon Beef Director
Lloyd L. Bauman Central Livestock Association Inc.	Max Deets Kansas Beef Director	William Reitz National Grocers Association	Marvin Walter National Association of Meat Purveyors
Willis Beecher Minnesota Beef Director	Vernon Dunn Oklahoma Beef Director	Tom Reynolds Colorado Beef Director	Milton Ward Texas Beef Director
Wilbur Benroth Ohio Beef Director	Jim Eller Texas Beef Director	Gary Rose Utah Beef Director	Louise Willey California Beef Director
Fred Bergman Wisconsin Beef Director	Ned Ellis Alabama Beef Director	Ella Roush Pennsylvania Beef Director	Thomas Williams Arkansas Beef Director
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Dennis Bolling Producers Livestock Association	Marshall L. Fraser Colorado Beef Director	Larry Schaffer Nebraska Beef Director	Ann Woolley Oklahoma Beef Director
Pam Bontekoe Michigan Beef Director	Jane R. Frost New Mexico Beef Director	Rick Searer Packer Beef Director	Veal
J. Patrick Boyle American Meat Institute	Danny Geesman South Dakota Beef Director	Jack Shore North Carolina Beef Director	Chairman Veal Committee Palmer Starnes Ohio Veal Director
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Tom Brodenck Missouri Beef Director	Jim Gilliland Kansas Beef Director	George Spencer Packer Beef Director	Vice Chairman Veal Committee Floyd Many New York Veal Director
Dallas Bryington Nevada Beef Director	Byron Gossett Texas Beef Director	Edgar Starnes Meat Importers Council of America	Eric Fleck Indiana Veal Director
Bill D. Carmichael Oklahoma Beef Director	Francis Gregerson National Milk Producers Federation	Harry Sullivan Food Marketing Institute	Clayton Harnish Pennsylvania Veal Director
Ralph W. Cellon, Jr. Florida Beef Director	George A. Hall American Stock Yards Association	Anne Tantum American Association of Meat Processors	Barbara Huffman Wisconsin Veal Director
Marshall Collins Colorado Beef Director	Lee C. Hall Kentucky Beef Director	Becky Terry American National CattleWomen, Inc.	Gene Kirkpatrick American Veal Association
Nelson Cordill, Sr. Washington Beef Director	George Hammond Montana Beef Director	Larry Otten Kansas Beef Director	Mike Stelzer California Veal Director
L.R. "Ron" Curtis Iowa Beef Director	Terry Handke Kansas Beef Director	Rose Paulson South Dakota Beef Director	
	Los Jean Hartmann Nebraska Beef Director		

Meat Board Officers

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Beef Industry Council...The Federation of State Beef Councils Since 1963.

Mr. Chairman, my name is Ray Larson and I am a cattle feeder from Maple Park, Illinois. In addition, I am chairman of the Beef Industry Council, a division of the National Live Stock and Meat Board. The Beef Industry Council is a federation of 44 state beef councils and is the primary domestic consumer market development organization of the beef industry. I was first seated on the Beef Industry Council board in 1983, to represent the Illinois Beef Council, which I had previously chaired.

The Meat Board was organized in 1922 as a consumer marketing alliance funded by voluntary livestock producer checkoffs and packer investments. Its Beef Industry Council division was formed in 1963 as a federation of state beef councils to coordinate industry beef promotion programs and establish a national marketing presence. When the dollar checkoff began in October 1986, the federation brought its 23 years of marketing experience to a new partnership with the Beef Promotion and Research Board. Today, of the 96 industry representatives serving on the Beef Industry Council, 69 are elected directly by state beef councils; the others represent national industry organizations, such as the National Cattlemen's Association, and packer/processor investors.

I want to emphasize our role as a market development organization. We are not a trade association and we have no responsibilities for lobbying and other government activities. We exist solely to conduct market development programs of promotion, information and research.

I have been closely involved with the beef industry's promotion efforts for more than 16 years. I worked for passage of a national checkoff three times, served on state and national cattlemen's association boards, served on and chaired the board of my state beef council, served in several capacities at the national level through the Beef Industry Council,

and have been a member of the Beef Promotion Operating Committee since its creation.

I've been a cattle feeder for as long as my wife, Carol, and I have farmed. During these years, we've seen some radical changes in the beef business and we've seen many of our neighbors forced out of it. Like many of my fellow cattlemen, I understand that changes in the beef industry are directly related to changes in consumer attitudes about our products. To regain the market share we've lost, we have to continue to do research, develop new and better products, provide information about our products and respond to other consumer needs. As cattlemen we can respond to consumer needs best through a national beef checkoff. As a feeder, I personally invest significant dollars in the beef checkoff. And I've given my time during the past several years helping to kick this program off as efficiently as possible. I'm satisfied the checkoff is operating the way we cattlemen want it to operate and that it's producing the kinds of results we want. I appreciate the opportunity Congress has given the industry through the Beef Promotion and Research Act.

New Partnership

At first glance, the structure of the national beef checkoff seems complex. But the Beef Promotion and Research Act and Order were built around what our industry wants -- a national, uniform funding program utilizing existing organizations and resources. Prior to passage of the act, national independent research of producer opinions found that producers didn't want to duplicate what already existed, including the Beef Industry Council, state beef councils, the U.S. Meat Export Federation, the National Cattlemen's Association, and other organizations which were in place and working to build demand for beef here and abroad.

Cattlemen, feeders like me, dairymen and veal growers, control all of these

organizations and all are not-for-profit organizations that have performed research, information and promotion programs for years.

But the Act also built the checkoff around another important principle -- partnership. The legislative history, the Act and the Order provided the framework of a partnership between state and national organizations striving to improve demand for beef through the checkoff. As in any good partnership, both sides brought unique capabilities to the table.

And, since passage of the checkoff, the partnership has matured. The Beef Board assures uniform collection of the checkoff, provides the benefits of industry-wide planning and has developed a coordinated approach to program evaluation. For our part, the Beef Industry Council, as a federation, provides its experience and expertise to help states develop individual marketing plans, provides state input into research, information and promotional program development, and offers states an effective way to invest in or to roll-out national programs.

Coordination of state and national efforts is further assured through the unique design of the Beef Promotion Operating Committee. This body, which includes 10 members from the Beef Board and 10 from the federation to represent the state beef councils, was created specifically to help coordinate the 50 cents managed by the Beef Board and the 50 cents managed by the states. I believe Congress and the industry, working together to develop this legislation, correctly sensed the need for coordination of the new partnership with the Beef Board. The report of the House Committee on Agriculture states:

"There already exists an extensive national program of promotion, research and consumer information carried out by the Beef Industry Council ... This Council receives voluntary contributions from State Beef Councils in order to carry out its activities. In addition, the State Beef Councils are represented within the federated structure of the Beef Industry Council ... It is recognized that if the Beef Industry Council and the [Beef] Board implement programs in a coordinated fashion that producers' money will most likely be spent in the most efficient manner."

As was the case three years ago when my predecessor, Oregon beef producer Polly Owen testified before this committee, producers across the country continue to show a high level of confidence in the program, as indicated in national producer surveys. Nearly four out of five cattlemen still support the program and when asked "if you could change one thing about the checkoff, what would it be?" most producers continue to suggest that no changes be made.

And I believe producers support the checkoff because they realize that it is working. Market research shows that, although we aren't out of the woods completely yet, consumers are changing the way they think and feel about beef. As a producer, I can not help but believe that these improved attitudes have played a role in building demand for our product and returning profitability to our industry.

As I mentioned earlier, we work in three primary areas at the Beef Industry Council -- research, information and promotion. I could give you a great deal of program history in each of these areas. Instead, I'd like to build on the testimony Polly presented three years ago and concentrate on what's happened in the years since.

Research Results

First, I'd like to review the results of significant research conducted recently with

checkoff support. It is through our market research that we learn directly what consumers think about our products and learn how we might change our products to meet these expectations. For example, as well as the program did during the first few years, the industry two years ago turned to a nationally-recognized marketing consultant to help us make a strategic market analysis. This research provided the industry with 10 marketing imperatives and these have guided our efforts for the past two years. I'll not go through all 10, but let me highlight a couple to give you a sense of our new direction.

A major recommendation was to develop our efforts around meals, not cuts. As simple as that advice may seem, we have traditionally provided consumers with cooking advice and nutritional information based on the cuts we produce, but did not always put that information in the context of the meal. This caused some confusion and actually limited consumer choices. Based on this research finding, our new advertising campaign is built on the theme "Beef. It's What's For Dinner." and a major component of this effort is a recipe booklet "30 Meals In 30 Minutes" to help today's time-pressed consumer prepare new and interesting meals for the family.

Several of the imperatives directed us to work with retail and foodservice partners to merchandise the meat case and expand menu choices, all efforts aimed at halting the decline in share we've suffered over the last two decades. We have partnered with individual companies -- such as A.1 Steak Sauce, McCormick seasonings, Pizza Hut and Bennigan's -- to carry out specific promotions; we've partnered with other groups -- such as the American Dairy Association -- to carry out generic promotions; and we've worked with multiple partners to attempt to find better ways to merchandise the meat case. In fact, we are currently reviewing the results of a project aimed at testing new ways to set up the meat case which

might provide meal guidance to consumers. Through this project, called *Apropos*, we actually went into partner food stores and rearranged their meat cases, developed appropriate signage and helped them maintain stocks. Our partners provided us with full access to their scanner and sales data to help us -- and them -- access the potential of such a full-scale redesign of the traditional meat case. As I said, we're still reviewing the data, but we hope to find new and better ways to help consumers select beef for dinner tonight.

Market research often directs other checkoff-funded research efforts as well. For example, our research consistently tells us that people are worried about fat in the diet. At the same time, we know that about half of the beef served in the U.S. is in the form of hamburger. Several years ago, therefore, we began an effort to attempt to develop a low-fat hamburger product that would satisfy consumers tastes and concerns, while meeting high industry quality standards. Our research came up with two or three viable alternatives to the standard patty. But knowing how to produce the product helps neither consumers nor the industry until it's rolled out. In this case, we worked directly with several purveyors to get the product into the retail mix and we partnered with McDonald's to test market the low-fat hamburger. The McLean Deluxe was their product, but the technology behind the product was the result of checkoff-funded research.

The low-fat story doesn't end there. We've also worked very closely with the national school lunch program to introduce low-fat patties. In addition, we've helped develop hamburger rinsing techniques which can be used in the school cafeteria -- or at home, for that matter -- to cut fat in half in dishes such as spaghetti or lasagna. In fact, this effort has earned us an award of merit from USDA for our contributions.

We also know that there is a great deal of confusion about the nutritional composition

of our products. As an industry, we have worked hard to reduce the fat on our product in the meat case -- it has 27 percent less fat than it did 10 years ago. Still, many of the official nutritional handbooks health professionals rely upon didn't reflect this change. We have, with checkoff support, worked closely with USDA's Food Nutrition Information Service to provide the research support needed to update these handbooks. Those efforts continue now as our product is offered to consumers with less and less fat.

The last example of our research efforts that I'll give you today deals with an issue which can turn tragic. We are all aware of the recent E. coli 0157:H7 outbreak in the Northwest. First, let me express my deepest regrets to the families touched by this unfortunate incident. All of us in the industry would like to be able to provide a totally sterile, bacteria-free product. But that isn't possible with today's technology. During the past three years, we have invested more than a million dollars in research to address E. coli and we are in regular contact with the industry to try to find better control procedures to contain this organism.

One research project has provided us with what may be a partial solution and the technique developed by this research was approved by USDA last year. The technique, called Organic Acid Rinse, or OAR, has been shown to greatly reduce the number of potentially hazardous pathogens which may exist on a carcass as it moves through the packing house. It still is not perfect -- it can not guarantee that the meat is risk-free. But it is a step in the right direction.

Committed To Science

Another imperative produced by our strategic market analysis was to reassure consumers that beef can be part of a healthful diet. With all of the claims and counter-

claims, consumers are confused about what to eat, or not eat. In the case of the checkoff, while our research goes to the science of nutrition, our consumer information programs tackle the tough job of disseminating the information we discover. Another way to look at it is this: while checkoff promotion now emphasizes beef's convenience, versatility and ease of preparation, consumer information programs reassure consumers that beef can be part of a healthful diet. Our information message to consumers is beef fits modern, healthful lifestyles, and that it is not inconsistent to include appropriate portions of lean beef in fat-modified or cholesterol-modified diets. In fact, in the mid-1980s, we launched the first commodity nutrition labeling program, called Meat Nutri-Facts. As you can see, working with consumers to provide this type of information has long been the mission of the Beef Industry Council and we have worked hard to put the new imperatives of the marketing study into action.

You might be interested to know that the beef industry develops all information programs according to industry-adopted guidelines established in 1984 in the "Statement of Principles in Dealing with Diet-Health Issues." Among the principles are:

- "Information we disseminate will be supported by facts and science."
- "We pledge to do our part to help the American consumer achieve optimum health by providing safe and wholesome products and information to assist the consumer in making informed choices about diet."
- "We believe the attributes of red meat are compatible with the rising consumer interests in good health and weight control. We must carry out communications programs to explain these attributes."
- "We believe that overwhelming scientific evidence points to a diet of moderation and variety.... We agree with the concept of the dietary guidelines recommending the avoidance of too much fat, sodium and sugar."

- "We must recognize that when we give advice about what to eat or not to eat we are affecting both the quality of life and life itself."
- "We pledge to use these principles in guiding our actions and communications with respect to diet and health issues."

This commitment to healthful diets and accurate information underlies all decisions made by the beef industry regarding its consumer information programs.

Information Results

There are several programs which underscore our commitment to providing accurate nutritional information to consumers. While I don't have time to review the results of all of them here today, I would like to share a few with you.

One of our longest-standing programs provided directly to the health community is a consulting aid called "A Change of Plate: How to Reduce Fat and Calories When Choosing and Using Meat." This is a comprehensive kit designed to help registered dietitians and other health professionals teach their patients and clients how to use meat in ways that reduce fat and calories without affecting its nutritional benefits. Our staff worked closely with health professionals to design this kit and update this kit. One of the things health professionals said they wanted was a model that would educate consumers about the appropriate serving size for a beef entree -- which is, incidentally, three ounces of cooked and trimmed product. So in the kit are three-dimensional plastic models of actual three-ounce portions of hamburger and roast beef which consumers can pick up, feel and see. In this way, they can get a better idea of the appropriate serving size.

"A Change Of Plate" is an excellent example of our association with the nutrition and dietetic community. In 1985 we entered into a comprehensive and successful nutrition

information program with the American Dietetic Association. Through jointly-sponsored nutrition seminars for dietitians, the Beef Industry Council, state beef councils and the American Dietetic Association have helped inform more than 17,000 dietitians about the most recent nutrition research on beef, and how beef can most appropriately be incorporated into a balanced and healthful diet. These dietitians consult more than 15 million clients annually.

This effort by the Beef Industry Council to cooperate with the nutrition community in educating the American public about diet and health was recognized early on by the American Dietetic Association, when it presented its "President's Circle Nutrition Education Award" in late 1986 to the National Live Stock and Meat Board. The award recognizes contributions to nutrition education by business or corporate entities, and ours was only the second given in ADA history.

But our efforts to provide accurate information about nutrition have not stopped with the ADA. During the past few years, we have developed partnerships with several health organizations. For example:

- The American Academy of Family Physicians has provided review, input and endorsement for several of our materials, including "A Good Start," for pregnant women, "A Food Guide," for parents of young children, "Nutrition Strategies," for middle-aged folks who may have high cholesterol levels, and "Sterling Advice," for seniors.
- The American Academy of Pediatrics provided review and endorsement of "A Food Guide."

- The American Medical Association, in conjunction with its cable television affiliate, aired for continuing education credit our program "Practical Strategies For Improving Compliance In Hypercholesterolemia," which included a distinguished faculty of experts on the subject.
- The USDA-HHS, provided input and review as we worked to distribute "Food Guide Pyramid" posters to dietitians and other health professionals soon after the pyramid was officially adopted.
- The American Heart Association last fall used our "Nutrition Strategies" brochure and heart-healthy beef recipes during its "Fall Food Festival" in 8,500 retail stores. These same brochures are being used next month during National Nutrition Month by AHA affiliates to help consumers understand the 10 steps toward better health.

But as good a partnership as we think that was, I'm proud to report that we are taking our relationship a step further. This spring we will be the sole sponsor of AHA's Heart Ride event. It's goal is to raise money for cardiovascular research, while helping people understand the role of proper exercise and a balanced diet in the maintenance of good cardiovascular health. We look forward to participating in this pilot event with AHA.

We have also taken an active role in providing information about beef to children in our nation's schools. Today there is not only confusion over health issues, but also about other issues related to our industry. The materials we develop have been identified as areas of need by teachers and we have teachers help write and review these kits before they are introduced into the schools.

I'd like to share two recent examples of checkoff-funded teaching materials:

- "Mirror, Mirror" is designed to help educators in the fields of counseling, health, biology and home economics work with teenagers with real or perceived weight problems. A key message here is balance and moderation in diet along with regular exercise to achieve proper weight. In its initial introduction, which drained our entire inventory in less than a month, we received dozens of unsolicited letters of thanks for our leadership in providing this much-needed service.
- "Caretakers All" is designed to help teachers motivate children to want to be good caretakers of the environment by showing examples of how other people work to be good stewards. I'm proud to say this kit uses farmers and ranchers as the role models. Teacher requests for the kit have exceeded 12,000 in the first month. Demand so far exceeded our expectations that we have already moved into the second printing of the materials.

And, of course, no amount of diet/health information would be complete without helping consumers learn how to use our products. An important consumer information function is development of recipes and preparation methods which consumers can easily adapt to their own family meal situations. Even here the checkoff has helped us become more responsive to consumer needs. We recently did some market research to help us discover the best ways to provide recipe information. Despite our 70-plus years of experience in this field, we learned some valuable lessons which we think will benefit consumers.

I could go on with dozens of additional examples of what we're doing in consumer information. But my point in sharing this with you is to demonstrate that the beef checkoff program is focussed on beef in a balanced and varied diet. Some Americans may be eating

our product inappropriately; others may incorrectly believe they need to cut back on beef. We want to help all consumers enjoy our product.

Promotion Results

Finally, I'd like to briefly discuss our new promotional effort. As I mentioned, our strategic market analysis focused our promotional efforts on "variety" and "meals." Our "Beef. It's What's For Dinner." campaign on television and in many popular magazines is built on these concepts. We found that many consumers were confused about how long or how complicated it was to fix beef. We think our campaign is changing these attitudes. Tracking studies show improvements in attitudes about preparation ease, versatility and convenience. In fact, we found that intent to serve beef at home has increased by 12 percent during the first few months of the new campaign.

Frankly, achieving continued high levels of awareness among consumers will be harder in the years ahead as inflation erodes our checkoff dollar's buying power. But I'm convinced that our program will continue to help us improve attitudes and increase serving opportunities.

A new program we tested last year, and have in place for this fiscal year, is also helping make beef more affordable to consumers. The concept centers around retail featuring and provides an incentive to participating retailers willing to increase the number of beef "A" features in their local advertising. During our test, we invested about 1.1 cents per serving to encourage featuring and moved an additional 58,078 boxes of beef. That translates to a win-win-win: retailers won because they received an incentive to feature beef; the beef industry won because we moved extra product; and consumers won because they were able to buy beef

at a featured price. None of this would have been possible without the checkoff.

Checkoff Working

In summary, then, I would like to emphasize that the Beef Promotion and Research Act and Order are working as beef producers envisioned it would. For this reason, the checkoff enjoys very strong support across all segments of the industry. The program is also helping American consumers buy, prepare and enjoy one of their favorite foods. For these reasons, it is my opinion that the checkoff program for beef is accomplishing what it was designed to accomplish by Congress and should continue to operate unchanged.

Thank you.

(Attachments follow:)



The Meat Board mission is to enhance the profit opportunities for the livestock and meat industry by protecting and improving consumer demand for beef, veal, pork, lamb and deli/prepared meats. The Board has adhered to this mission since its formation nearly seven decades ago, by developing and implementing consumer programs of research, education, information, and promotion. The Board is accountable to the industry through its funding divisions: Beef Industry Council, Veal Committee, Pork Industry Group, Lamb Committee and Deli/Prepared Meats Committee.

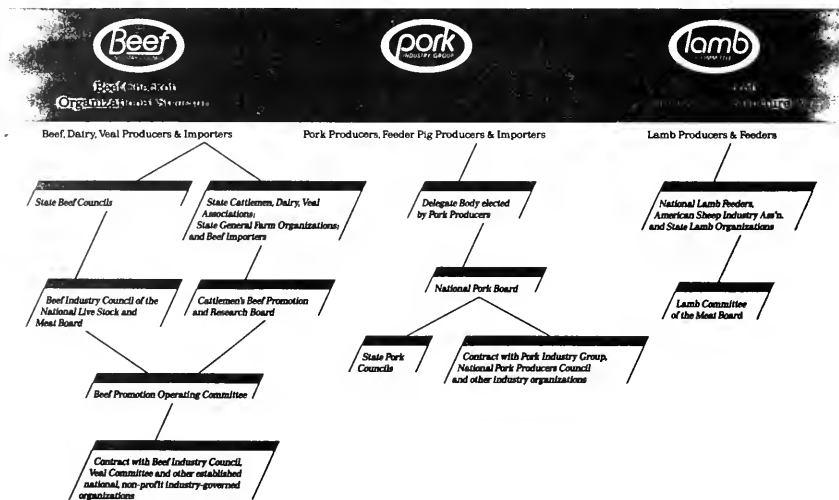
The first checkoff for consumer market development programs in American agriculture was initiated in 1922 when the Meat Board was established.

Today, the Meat Board continues to be funded through livestock checkoffs and voluntary investments from packers, processors and purveyors.

The Meat Board is the only coalition of the livestock and meat industry, bringing together the entire farm/ranch-to-table spectrum of the industry with the single purpose of building consumer demand and addressing common marketplace issues. The system for electing Meat Board Directors creates the livestock and meat industry forum and assures the Meat Board's accountability to beef, veal, pork and lamb producers and packers/processors/purveyors funding the program. At the Meat Board, beef is for beef, veal for veal, pork for pork, lamb for lamb, and all for meat.

Today, with two national legislated check-off programs (beef/veal and pork) in place the Meat Board coalition continues to serve the livestock and meat industry. In fact, the 1985 Farm Act which created the authority for both the beef and pork national legislated checkoffs was drafted in such a way to coordinate the new Boards with existing checkoff structures, such as the federation of 44 state beef councils which makes up the Beef Industry Council of the Meat Board, and the continuation of the National Pork Producers Council and the Pork Industry Group of the Meat Board.

This graphic illustration shows the working relationships which exist between the Beef and Pork Boards and the species divisions of the Meat Board.



THE MEAT BOARD...BUILDING DEMAND THROUGH INDUSTRY CHECKOFFS SINCE 1922.



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As producers, processors and marketers of the nation's meat supply, we subscribe to the following principles to guide us in our statements and actions in dealing with the issue of meat's role in the diet:

1. Information we disseminate will be supported by facts and science.
2. We recognize that diet is a common concern to millions of Americans. We recognize that concern as a positive development to assure a healthy nation. We pledge to do our part to help the American consumer achieve optimum health by providing safe and wholesome products and information to assist the consumer in making informed choices about diet.
3. We believe the attributes of meat are compatible with the rising consumer interests in good health and weight control. We must carry out communications programs to explain these attributes.
4. Our nutrition message must be positive — and address whatever myths or misconceptions exist in the public mind about our product. We will devote our energy to the development of the most effective, comprehensive and positive communication programs. We will concentrate on the positive aspects rather than using valuable resources in reacting to each anti-meat statement that may appear in the media.
5. We recognize the changing lifestyle of the American consumer and the array of meat products needed to satisfy the varied elements of today's market. We must understand the changing consumer, and the industry must respond with products that meet these new consumer desires. Promotion and communication programs alone cannot build demand. We must have the proper product for the marketplace as well.

6. Because of conflicting advice about diet and health, there is a risk of consumer confusion and uncertainty. We believe that overwhelming scientific evidence points to a diet of moderation and variety. Individuals with specific health concerns that require dietary modification should be diagnosed and have diets prescribed by a physician. We agree with the concept of the dietary guidelines recommending the avoidance of too much fat, sodium and sugar.

We urge all involved in the development and dissemination of dietary information to proceed with caution, recognizing the consumer's growing skepticism with regard to dietary advice. We must recognize that when we give advice about what to eat or not to eat we are affecting both the quality of life and life itself.

7. We pledge to use these principles in guiding our actions and communications with respect to diet and health issues.

*Adopted by Board of Directors
National Live Stock & Meat Board
February 1984*

STATEMENT OF PRINCIPLES IN DEALING WITH DIET-HEALTH ISSUES



(The complete report is held in the committee files.)

Washington Office

**Statement of the
National Pork Producers Council**

**Before the
Livestock Subcommittee
of the
House Agriculture Committee**

Producer-Funded Commodity Promotion Programs

**Presented by: Karl Johnson, President-Elect
National Pork Producers Council
February 24, 1993**

National Headquarters


The Other
White Meat.

Mr. Chairman and Members of the Subcommittee:

My name is Karl Johnson. My brother and I run a 370 sow farrow-to-finish operation near Mankato, Minnesota. We also raise corn and soybeans. Over the years, I have served in a number of state and national positions with producer organizations. I am proud to say I was co-chairman of the national 100 percent Producer Task Force which coordinated the successful campaign in 1988 to obtain producer approval for continuation of the legislative checkoff. That referendum was approved by 79 percent of the producers and importers who voted.

I am currently president-elect of the National Pork Producers Council (NPPC). I was elected to that position in 1991.

OVERVIEW OF NATIONAL PORK PRODUCERS COUNCIL

The National Pork Producers Council represents the nation's pork producers, and draws its strength from its grassroots through 45 affiliated state associations. The organization began in the mid-1950's when a group of producers, concerned about the future growth and profitability of the pork industry, organized the National Swine Growers Council. In 1967 that organization evolved into the present National Pork Producers Council. Producers, acting through the NPPC organization, successfully pressed in 1985 for congressional approval of a national legislative checkoff. The move from a voluntary to a legislative checkoff was made as a result of the need for additional funds to keep pork competitive with other protein-based commodities.

Since the legislative checkoff has been in effect, the National Pork Board has contracted with NPPC to carry out various checkoff-funded programs on behalf of America's pork producers. Specifically, we conduct programs in

the areas of consumer advertising, promotion, retail merchandising, product improvement/production technology, foodservice, consumer affairs and foreign market development. NPPC further contracts with the U.S. Meat Export Federation to do specific foreign pork promotions.

Separately from our checkoff funded activities as a contractor to the National Pork Board, the NPPC, utilizing non-checkoff funds, serves as a unified voice for the nation's pork producers on a wide range of industry and national public policy issues.

The overall mission of the National Pork Producers Council is "to instill a true commitment to quality throughout the entire pork industry, establishing American pork as the consumer's meat of choice in the 21st Century and enhancing the pork producer's opportunity for profit and ability to remain autonomous, regardless of size."

CONSUMER PROMOTION PROGRAMS

In 1986, NPPC initiated the pork industry's landmark checkoff funded promotion program, Pork-The Other White Meat. The program, which was designed to change long-standing and generally negative consumer attitudes concerning pork, has exceeded all expectations. The campaign has, in effect, given fresh pork what amounts to a brand name identification with consumers.

The introduction of year-round national television and cable advertising beginning in 1991 is coupled with our on-going advertising in many of the nation's major consumer magazines. State producer associations place additional radio, television and newspaper advertising in their home areas. As a result of these activities, the "White Meat" message now reaches every U.S. household at least three times a year. By the end of 1992, pork's total

consumer share-of-mind, including their awareness of pork as a white meat, increased 17 percent in 1992....to a total of 74 percent.

Consumer demand has held up well this past year despite record large hog production, coupled with record high competing meat and poultry supplies and a generally less than robust economy. Most analysts seem to agree that is due, at least in part, to the industry's successful demand-building efforts, such as the Pork-The Other White Meat promotion campaign. That campaign is not confined to television and magazine advertising. NPPC's regional retail merchandisers work one-on-one with retailers on promotions and cooperative advertising efforts throughout the year. Retailers and packers rely on checkoff funded in-store seminars and cutting demonstrations to improve their pork merchandising expertise. Cutting demonstrations by our merchandisers are giving retail meat managers fresh new ideas on how to sell pork cuts that may not be as familiar to consumers as chops, roasts and ribs.

Promoting pork's quality and versatility to food retailers is critical to the industry, because they are the ones who determine the amount and variety of pork products that are made available to consumers at the store. More than 20,000 retailers now participate in NPPC's annual promotion efforts funded by the checkoff.

Pork usage by the giant foodservice segment of the industry continues to grow as a percent of total pork production. It has jumped dramatically in recent years and now stands at 53 percent, according to a new research study. A great deal of the credit for that increase is due to the efforts of our foodservice personnel.

Industry fast-food giants like Burger King, Hardees and Kentucky Fried Chicken, among others, are currently testing pork items ranging from rib

and loin sandwiches to pork tamales and fajitas. These efforts follow in the footsteps of the reintroduction of the Mc Rib sandwich at McDonald's several years ago. McDonald's management have identified the Mc Rib as its most successful specialty sandwich.

Non-commercial foodservice is a fast growing segment of the foodservice industry. More than 10,000 cafeterias in schools, hospitals, corporate and government facilities now regularly participate in checkoff funded promotions featuring pork. Large companies, such as the Ford Motor Company and Hallmark Cards, work with our foodservice representatives to promote and serve quality pork entrees to their employees. Last year during a five-month period the cafeterias involved in such promotions served more than 7.5 million meals each day. Offering pork at such facilities gives employees an opportunity to try pork, perhaps for the first time. If they like it, they are more likely to use it at home or order it from a restaurant menu in the future.

Checkoff-funded materials, such as recipes and preparations tips, have also helped schools and institutions. During the 1991-92 school year, USDA purchased more than 97 million pounds of canned pork, smoked hams and ground pork for use in the school foodservice program and other government feeding efforts. We appreciate the use of pork in these programs and hope that these materials make the pork even more useful to the recipients.

With more people on the go each year, we are now targeting the rapidly growing deli/frozen food section of the retail market. Ham is already the number one selling item in the deli case. We are working to add hot entree pork items, such as pre-cooked loin roasts, chops and tenderloins to the list of future consumer choices at the retail deli.

PRODUCTION TECHNOLOGY/RESEARCH

Appearance, taste, nutritional value and wholesomeness are all quality factors that consumers take into consideration when purchasing pork products. Producers know that quality begins on the farm with individual producers, and such things as how they raise their animals and how they care for the environment in and around their farm facilities.

Checkoff funded production research, in areas such as disease prevention, genetics, animal care, environmental management and market technology, all play a key role in producer's ability to deliver a high quality product to consumers. Checkoff-funded research now underway involves such things as nutrient management, water quality and odor problems. The results of such research will help pork producers better manage environmental concerns.

An *Environmental Quality in Swine Production Handbook* was developed through more than a year's consideration. It was reviewed by an NPPC producer task force and contains input from some of the nation's leading environmental experts, including those in the government. Pork industry delegates will vote on whether to approve the handbook at the annual Pork Forum next month. If approved by delegates, NPPC will distribute the handbook to producers across the nation to help them make environmental decisions on their farms.

A *Swine Care Handbook* providing voluntary guidelines for proper care of swine raised in a variety of production systems, has been in circulation for more than a year now. While much of the information in both booklets may be second nature to most producers, they understand the benefits that come from smart and sensitive animal husbandry and environmental awareness.

A landmark National Genetics Evaluation Program is now underway. It is designed to help producers find combinations of breeds and lines that will most profitably produce quality pork products. When completed several years from now, it will provide producers with the most objective information available to guide their seedstock investment decisions. It will help them to more efficiently improve the quality of their hog herds.

In future years, producers must be able to respond quickly to issues that affect them. NPPC is coordinating efforts with the state producer associations to provide information and education programs that fill the needs of the modern, progressive pork producer. Emphasis on issues such as the environment, animal care, genetic improvement, financial and business management are among the priorities that we feel will need to be addressed.

NPPC, in association with the Pork Board, is currently conducting a Pork Quality Audit. We are examining the flow of pork from the farm to the consumer. The audit is a thorough examination of all major segments of the pork chain. We are exploring customer needs and possible quality problems. The resulting information will be integrated into the industry's future planning process so that future checkoff programs can focus on helping solve some of the problems that the audit may identify.

FOREIGN TRADE/QUALITY ASSURANCE

U.S. farmers produce pork more efficiently than anyone else in the world. Checkoff programs coordinated by the National Pork Producers Council are helping get that message across. Our goal is to make the U.S. a net exporter of pork, and we are rapidly nearing attainment of that goal. Last year, U.S. pork exports were up about 56 percent in volume, while imports were down 17.5 percent. That added about \$1.50 per hundredweight to U.S. cash hog

prices.

A recent survey conducted with current and potential foreign buyers, said the potential for U.S. pork sales through the turn of the century is "staggering"...approaching as much as \$1.8 billion.

We have made a lot of progress in recent years. Another checkoff program, coordinated by NPPC for the Pork Board, has helped considerably. More than 22,000 pork producers producing more than half of our annual production are now participating in the Pork Quality Assurance program. It's a meaningful and effective way to show consumers, at home and in foreign markets, that U.S. pork producers are serious about the quality and safety of their product. Widespread producer participation in the Pork Quality Assurance Program has been a significant positive selling point for U.S. pork products abroad since 1989 when the program was first introduced.

A new trade consortium, the American Export Trading Company (APEX) is now being organized by NPPC under the Export Trading Company Act of 1982. It will make it easier to link potential overseas buyers of pork with U.S. pork packing export companies. The trading company should be operating later this year.

Increasingly, we are not just selling a cut of pork to foreign customers. They want to know about everything that goes into producing it, from genetics to processing. We know that is true, because we have, in association with the U.S. Meat Export Federation, conducted a number of U.S. pork promotions in places like Japan, Korea, Mexico, the Caribbean the European Community and Russia in the last year or so. Such promotions emphasize the United States as a reliable supplier of high-quality, safe and wholesome pork products.

I have outlined to you some of the checkoff-funded programs that the National Pork Producers Council is funding under contract to the National Pork Board. We believe the value of the programs is evident by the results we have been able to obtain. During the last year, the U.S. pork industry has attained a new plateau. Historically, we have produced 83-87 million head of hogs per year. However in 1992, we produced an all-time high record 17.2 billion pounds of pork from 96 million head of hogs. More importantly, this expanded level was produced and marketed at a profit for a majority of the nation's pork producers. We believe that our modest profit margins, even with this growth in our industry, is a reflection of the success of the pork checkoff.

CHECKOFF PROGRAM OPERATIONS

As the Pork Act requires, the pork checkoff operates at no cost to the federal government. It is entirely funded by producers, not taxpayers. Unlike some farmers, pork producers do not benefit from price support programs for their hogs. Pork producers' income and profitability are dependent upon strong markets and consistent consumer demand. Thus, the program functions as an integral, and vital, pork promotion, research and consumer information marketing tool for producers.

Federal law prohibits the use of program funds to lobby or influence government policy. NPPC is ever mindful of this responsibility to keep totally separate checkoff programs that it oversees as a contractor to the Pork Board from its role as a voice for America's pork producers on public policy issues. Furthermore, we are conscientious of administrative costs charged to the Pork Board.

NPPC also strives to make sure that the checkoff programs it oversees do not duplicate activities carried out by the U.S. government or other groups. Instead, these programs often complement USDA and other efforts.

We have worked hard to make sure that our checkoff-funded efforts are in the best interest of America's pork producers, and that producers with operations of all sizes benefit. In turn, producers have given ongoing approval of checkoff-efforts. They verified their support for the pork checkoff in the 1987 referendum to determine if the producer-financed program should be continued. In a vote open to all producers and importers, 79 percent urged its continuation. Since that time, producer polls have indicated that 80 percent feel the program has benefitted the pork industry. In addition, more than 50 percent have said the program has benefitted them personally. Due to the program's success and benefits, producers gave it another round of support during a 1990 effort to increase producer contribution levels to 35 cents per \$100.00 value. It passed with an 86 percent approval rating. As a result of the producers' approval, the checkoff increased an additional 10 cents per \$100.00 value. Annual investments in promotion, research and consumer information now total \$38-40 million. We are also just completing another producer attitude survey that indicates tremendous support of the checkoff.

On behalf of the National Pork Producers Council, I want to thank the subcommittee for this opportunity to share with you some of the programs that NPPC carries out on behalf of America's pork producers through our contract with the National Pork Board. We are proud of the job the programs are doing and believe they are helping U.S. pork producers in an increasingly competitive and highly complex world.

Let me conclude with two points. First, producers are supporting the pork checkoff, and I believe that support comes from the fact that it is a highly successful and effective program. Second, this program directly benefits consumers without being a cost to them or the federal government.

I will be pleased to answer any questions you may have.

(Attachments follow:)

South Coastal Retailer

May 14, 1992

John Glassman
5016 Chestnut Lake Dr.
Charlotte, NC 28227

Dear John,

Thanks to you and Pork Council for excellent support during our recent Boneless Pork, Bulls Eye Promotion - since the 1st of the year we have put a renewed emphasis on Boneless Pork that has seen our tonnage near double on a weekly basis.

During our last promotion April 30th through May 6th we reaped the fruit of our labor as we recorded record Boneless Pork tonnage, over 63,000 lb in 16 stores or an average of 3937 lb per store.

Your and Joe Leathers and the Pork Councils encouragement to "Consider the possibilities of Boneless Pork" through merchandising manuals, labels and our recent Bulls Eye B.B.Q. Promotion, has been the catalyst behind our continued growth.

Thanks for your help, we appreciate it.

Sincerely,

Director of Meat Operations

JB/de

Emerging Format Retailer

JULY 16, 1992

JOHN GLASSMAN
NATIONAL PORK PRODUCERS COUNCIL
5016 CHESTNUT DRIVE
CHARLOTTE, NC 28227

DEAR JOHN,

ATTACHED YOU'LL FIND PROOF OF PERFORMANCE ON OUR LAST BONELESS
PORK AD WEEK OF 7/5/92.

THIS WAS A VERY SUCCESSFUL PROMOTION THAT WE HAD. WE
SOLD OVER 15,000 LBS, WHICH IS 2 TIMES OUR NORMAL PROMOTION
MOVEMENT.

ONCE AGAIN, WE THANK THE PORK COUNCIL FOR THEIR CONTINUED SUPPORT
AND LOOK FORWARD TO HAVING FURTHER PROMOTIONS.

SINCERELY

DIRECTOR OF MEAT AND SEAFOOD



September 30, 1992

Robin Kline, M.S., R.D.
 National Pork Producers Council
 P. O. Box 10383
 Des Moines, Iowa

Dear Robin,

Just wanted to take time to drop you a note to thank you for all the great press releases you send me on a regular basis. I know I don't tell you every time I use them, or how I use them, but rest assured they are used and the information disseminated every time I do a pork dish on TV.

In fact, I've gotten quite a few responses from my more vocal viewers commenting on how educational the recipe presentations have been when I dropped in a few "extra" hints (like the new concept on proper pork cooking temperatures--yep, they still cook it to death!).

Anyway, don't take me off your mailing list. Between your releases and my shows on television. . .we're selling a helluva lot of pigs!

Thanks a bunch,



Frank Davis
 Resident Chef
 WWL-TV Channel 4

Every Tuesday on Eyewitness Morning News

© Copyright by Frank Davis

4 WWL
 New Orleans

New Woman

October 30, 1990

Ms. Robin Kline
Public Relations Director
1776 NW 114th St.
P.O. Box 10383
Des Moines, IA 50306

Dear Robin,

WOW! I never realized how many ways Pork could be marketed and prepared.

Lunch was superb, and the overview of the Pork Industry very informational. The demonstration you performed truly caught my attention - I hadn't realized how tasty and easy Pork is to cook - it's perfect for that on-the-go "New" Woman.

I've sent the Press Kit on to our editorial department in New York. Thank you again for the invitation to the luncheon.

I hope we can put NEW WOMAN'S strengths to work in Marketing Pork as The Other White Meat.

Best regards,



Jennifer Choromanski

JC/mf

The Guenther Company
43 East Ohio Street, Suite 830, Chicago IL 60611

Hess and Hunt, Inc.

Nutrition Communications

560 Green Bay Road, Suite 400
Winnetka, Illinois 60093-2238

708/446-1223 FAX 708/446-1224

Robin Kline, M.S., R.D.
Director of Consumer Affairs
National Pork Producers Council
1776 N.W. 114th St.
Des Moines, Iowa

October 30, 1990

Dear Robin,

Thanks for the opportunity to attend the luncheon this week. I thought the entire event -- invitation, presentation, set-up, meal, demonstration and materials -- was first-rate. It was also good to have an opportunity to tell two of the gentlemen (who are pork producers) how valuable these programs are to dietitians and nutrition educators.

The preview of the nutrient information on pork was interesting and terrific news to those of us seeking to promote healthful, delicious, low fat entrees.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mary".

Mary Abbott Hess, MS, RD

National Pork Board

501 School Street, S.W. • Suite 400 • Washington, D.C. 20024
(202) 554-3601 • FAX: (202) 554-3602

Statement of the National Pork Board

Before the Livestock Subcommittee
of the House Agriculture Committee

Hearing on
Producer-Funded Commodity Promotion Programs
February 24, 1993

Presented by: James S. McKee, President
National Pork Board

MEMBERS ■ Harold Trask, President, Renwick, IA ■ Jim McKee, Vice President, Attica, IN ■ Don Benson, Hurley, SD ■ Henry Greenebaum, Scarsdale, NY ■ Ray Hanks, Fairbury, IL ■ Bob Ivey, Goldsboro, NC ■ Ritchie Jordan, Suffolk, VA ■ Joan Kreever, Piper City, IL ■ Allen Kepny, Wilton, IA ■ Tom Miller, Casa Grande, AZ ■ Linden Olson, Worthington, MN ■ Hilman Schroeder, Sauk City, WI ■ Gary Simpson, Ault, CO ■ Roy Strange, Moultrie, GA ■ Rodger Sturges, Enid, MS ■ Michael Simpson, Executive Vice President

Mr. Chairman and Members of the Subcommittee:

My name is Jim McKee. My family and I operate a farm near Attica, Indiana. We have a 72-sow Large White seedstock operation. We also farm 800 acres where we raise corn, wheat and soybeans. I was elected to the position of National Pork Board president in 1992. Prior to that I served as the Board's vice president and chairman of the audit committee. I have served on the Pork Board since its inception in 1986.

With me today is Ray Hanks of Fairbury, Illinois, the vice president of the Pork Board. Ray and his family run a 300-sow farrow to finish operation and an extensive farming operation, including corn and soybeans.

We appreciate the opportunity to represent the Pork Board and America's pork producers at this subcommittee hearing. We are pleased that you continue to take an active interest in the success of our industry checkoff programs. The Members of Congress certainly can share in the success of our efforts because it was the Congress that created the Pork Act and thus made the checkoff possible.

The Pork Act is a prime example of the benefits that can be derived from a self-help program funded by the nation's pork producers and importers AT NO COST TO TAXPAYERS OR THE FEDERAL GOVERNMENT.

OVERVIEW OF NATIONAL PORK BOARD

The National Pork Board was established as a result of the Pork Promotion, Research and Consumer Information Act of 1985. The 15 Board members are appointed by the Secretary of Agriculture from nominees submitted by a delegate body representing the nation's pork producers and importers. By law, the Board must include producers from at least 12 states.

The Act is unique unto itself. The Congress in 1985 recognized that each industry has its own unique problems and issues, and took that into consideration when drawing up the legislation. The Pork Act has specific provisions that are not included in other commodity checkoff programs.

The Pork Board is charged with the collection, administration and distribution of checkoff funds as well as the accountability for funded programs which, by law, are in the specific areas of promotion, research and consumer information. The Board makes sure that the funds generated through the checkoff are utilized in the most efficient and effective manner possible.

Just as the Members of Congress and the USDA Agricultural Marketing Service take their responsibility of oversight for checkoff programs very seriously, so do the members of the National Pork Board. We have firm procedures in place with our contractors emphasizing performance and financial accountability.

In accordance with producer wishes, the Pork Board has not created additional levels of bureaucracy or duplication of effort. Instead, the Board has continued to contract with several existing industry organizations with specific fields of expertise to implement checkoff programs on behalf of pork producers. Pork producers believe efforts to make the pork program or other programs conform to a "common denominator" would not enhance our ability to do the best job for pork producers and their families.

The National Pork Producers Council is a primary contractor. It conducts checkoff-funded programs in the areas of consumer advertising, promotion, retail merchandising, product improvement/production technology, foodservice, consumer affairs and foreign market development. NPPC further contracts with the U.S. Meat Export Federation to do specific foreign promotions.

Another primary Pork Board contractor is the National Live Stock and Meat Board's Pork Industry Group. It conducts checkoff-funded programs in the areas of consumer information, human nutrition and product research and youth education.

PRODUCERS SUPPORT CHECKOFF

Producer support for the industry's checkoff-funded efforts has been overwhelmingly positive since the start in 1986. In 1992, a survey

indicated that more than 80 percent of producers felt the checkoff was helping the industry advance pork's position in the marketplace. That same survey indicated that more than 55 percent of producers believed that checkoff programs were directly benefitting them personally. A new producer survey has just been completed and the results are now being compiled. Preliminary indications are that producer satisfaction with the checkoff will exceed that of the 1992 survey.

The continuing high level of support for checkoff programs is a realization among pork producers that the dramatic turnaround in consumer demand can only be sustained by continuing to strengthen current successful checkoff programs and initiate new ones. There is also a widespread understanding among most pork producers that our checkoff programs are the result of careful planning with a great deal of input from individual producers as well as their organizations. We have a long-range strategic plan in place, developed in a unified, coordinated way by all segments of our industry. We are currently in the process of developing an updated strategic plan that will take us into the early part of the 21st century.

In 1991, the National Pork Producers (Pork Act) Delegate Body voted overwhelmingly to raise the legislative checkoff rate from .25 of one percent of the market value of each hog (25 cents per \$100 of value) to .35 of one percent. Checkoff assessments apply to the sale of breeding stock, feeder pigs, market hogs and the imports of hogs, pork and pork products.

The decision to increase the checkoff rate followed months of careful consideration and evaluation by producer-run national and state pork industry organizations including the National Pork Board. That procedure included individual producer input and deliberation by a long-range resource development task force. The task force studied what needed to be done to sustain a steady increase in consumer demand for pork each year.

With the new checkoff rate, \$38-40 million of funds are generated annually. Among other things, the checkoff increase permitted the pork industry to fund and expand projects such as our highly successful Pork-The Other White Meat® consumer advertising campaign, that continues to

advance pork's position in the marketplace.

In fiscal 1993, 67 percent of total checkoff funding is directed towards industry promotion programs, 17 percent is funding consumer information programs while research and education efforts are receiving 16 percent of the checkoff budget. Of the total checkoff dollars, 21 percent are returned to state pork producer associations who direct its use for promotion, consumer information and research projects in their respective states. The state programs are coordinated with the nationally funded programs so that efforts are enhanced and duplication does not occur.

CONSUMER DEMAND INCREASING

Industry economists have reported that consumer demand for pork has increased an average of 0.4 percent annually since the legislative checkoff started in 1986. That is a 2.3 percent increase in consumer demand over the entire period. Experts tell us that every one percent improvement in consumer demand means \$200 million in pork producers' pockets. That is a dramatic turnaround from pre-Pork Act days, when during the years between 1980 and 1985 we were losing 3.6% in consumer demand each year.

That 2.3 percent increase translates into a nearly \$500 million positive impact on producers' bottom line with an investment of \$175 million over the six year period. Much of that income to producers occurred during an extended interval of a sluggish domestic economy and a large available supply of competing meats and poultry.

Here's another way to look at the checkoff's benefit to producers. If consumer demand was at the same level in 1992 that it was in the 1980-85 time period, hogs that producers marketed last year would have sold for about \$14 per hundredweight less than they actually did. That would be \$3 and one-third billion less money to producers than the \$10.3 billion they actually did receive in 1992.

Glenn Grimes, Professor Emeritus at the University of Missouri-Columbia, a veteran agricultural economist, says pork demand has been holding its own the past year or so in face of record supplies of pork, other meats and poultry in the marketplace. Some veteran analysts have publicly said that they are "astonished" at pork's continued viability, given marketplace realities. In 1992, for example, we produced more pork in this country than ever before. Yet most producers continued to realize profits. There is little question among industry analysts that producer checkoff-funded programs are helping in part to increase pork demand and the opportunity for producers to get a reasonable return on their investment.

CHECKOFF FUNDING RECOGNIZES NEW REALITIES

Many of the issues and opportunities that present themselves to pork producers today were not even a consideration in the 60's or 70's. Environmental considerations and world trade opportunities are just two that immediately come to mind. While advertising promotion of our product is still needed, the industry and its programs, as you can appreciate, are growing more complex with each passing year.

The members of the Pork Board have a real tie to the reality of production issues. We and other producers recognize the ever changing universe we operate in and market our products. Our programs address not only the "now" of our industry, but more importantly the future. The future will for certain be different and our checkoff programs must deal with change. While the National Pork Board maintains an arm's length business relationship with its contractors, we are in charge of the decision-making process for programs and funding. In addition, we closely monitor the various checkoff programs that our contractors are carrying out.

Later today, you will be hearing from representatives of two of our contractors. One of them will present some of the successes of our industry's flagship promotion effort, the Pork-The Other White Meat program, which has dramatically changed the attitudes of consumers about today's fresh pork.

Another of our contractors will tell you how we are spending checkoff funds to change the attitudes of physicians and other health professionals

concerning pork. He will also describe how a major checkoff-funded research effort has given us the science-based foundation needed to generate diet/health information about fresh pork that helps lend credibility to our consumer promotion and information programs.

The constant search by U.S. pork producers for quality improvement and always looking for ways to offer consumers a consistently high quality product is an example of an industry that constantly examines itself and then acts. That is the reality of the modern pork production industry and why Ray Hanks and I are so proud to be here representing it today before you. The realization that there could be problems that may be limiting the profitability and competitiveness of some segments of the pork chain has led us to initiate a checkoff funded Pork Quality Audit, which you will also be hearing about it in more detail later from one of our contractors.

In future years, producers must increasingly be able to respond more quickly to issues that affect them. Transfer of technology to producers in a timely manner and in a way which they can readily adapt it to their own operation, is the key to future profitability in the pork production industry. The Pork Board and its contractors are in the process of addressing all of these important issues.

In conclusion, the National Pork Board has reviewed with our contractors the methods by which they utilize contracted checkoff dollars for administrative costs. While the Board does not have a formal cap on such costs, we work very hard to minimize them and regularly monitor our contractors to make sure they are adhering to our instructions. We estimate that administrative expenses of the Board for the checkoff is currently 2 and 1/4 percent, which we believe is very reasonable. This is in part due to the fact that we only have a staff of two. We utilize existing industry contractors, thereby avoiding duplication of administrative staff.

Furthermore, we are diligent in working with our contractors to ensure that checkoff programs are completely separated from any lobbying activities. Pork checkoff funds are never used for lobbying. As the law mandates, we only use checkoff funds for pork promotion, research and consumer information.

On behalf of the National Pork Board, I again want to thank you for this opportunity to review the Pork Promotion, Research and Consumer Information programs with this subcommittee. We believe we have an efficient, effective program in place, serving the special needs of U.S. pork producers, and we are confident the program has their overwhelming support.

Mr. Hanks and I will be pleased to answer any questions you might have now or after our contractors have testified with additional information concerning the checkoff programs they coordinate for the Pork Board. We will also be glad to furnish you any additional information in writing you would like. Thank you for your kind attention.

PORK·INDUSTRY·GROUP

A DIVISION OF THE NATIONAL LIVE STOCK AND MEAT BOARD 

444 North Michigan Avenue • Chicago, Illinois 60611 • 312/467-5520

**Statement of the
Pork Industry Group
National Live Stock and Meat Board**

**Before the Livestock Subcommittee of the House Agriculture
Committee**

**Hearing on
Checkoff Programs
February 24, 1993**

**Submitted by: Larry Larson
Chairman, Pork Industry Group
Sargeant, Minnesota**

Pork Industry Group National Live Stock and Meat Board 1992-1993

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THE MEAT BOARD . . . BUILDING DEMAND THROUGH INDUSTRY CHECKOFFS SINCE 1922.

My name is Larry Larson. I am a pork producer from Sargeant, Minnesota, and current chairman of the Pork Industry Group, a division of the National Live Stock and Meat Board. Besides a pork enterprise, my family has a farming operation and owns Sargeant Grain Company. I am a past president of the Minnesota Pork Producers Association.

I was elected chairman of the Pork Industry Group in March 1992. This checkoff-funded, marketing group is a division of the National Live Stock and Meat Board, based in Chicago. The Meat Board is the nation's oldest producer checkoff-funded organization, formed in 1922. Even 71 years ago, the meat industry needed promotion, research and information programs.

In 1962, the Meat Board re-organized to allow for more species-specific marketing programs, while still allowing species to combine efforts to increase programming for the benefit of all. The Pork Industry Group is one of three Meat Board divisions; others are the Beef Industry Council and the Lamb Committee.

The Pork Industry Group Board of Directors, with 28 members, is accountable to the National Pork Board and pork industry for all pork dollars at the Meat Board. The directors set organizational policy, oversee program implementation and evaluate results. During the program and budget process, directors identify areas where "partnering" with other species allows enhanced marketing strength for pork and extends the reach of pork checkoff dollars. The board is comprised of 20 producer directors, representing states that "earn" a seat based on checkoff investments, plus

representatives from national pork-related organizations, such as the National Pork Producers Council.

The Pork Industry Group's mission, as stated in its Long Range Strategic Plan, is "To enhance the profit opportunities for the pork industry by conducting research and information programs to present pork as an important part of a safe and healthy diet for consumers."

Funding for the Pork Industry Group comes primarily through contracts with the National Pork Board, which administers the national pork checkoff. Checkoff investments come from pork producers in 45 states. Additional funding is obtained through voluntary investments from meat packers and processors. The 1993 budget of the Pork Industry Group is \$4.3 million, of which \$3.5 million is producer checkoff funding.

The National Pork Board contracts with the Pork Industry Group in three areas: research, consumer information and youth education. I would like to highlight each of these areas, with both general purpose and specific programs. First, let me say that while these programs are funded by producers and therefore must benefit them, they are also a benefit to consumers by providing accurate, science-based information on nutrition and the product itself.

The research area is two-fold: (1) it investigates human nutrition topics relating to pork, and (2) it explores new product technologies. The results of these research studies are non-proprietary, allowing all segments of the pork industry access to fundamental information. I would like to underscore pork checkoff-funded research

completed in the last three years that has substantially benefitted the pork industry and consumers.

Food safety is top-of-mind right now for many people, but it has long been a top concern of the pork industry. In November 1992, a project reached a successful conclusion upon USDA's Food Safety Inspection Service approving its use in qualified packing houses to enhance product safety. The technique involves misting carcasses with a mild organic solution that retards growth or attachment of bacteria onto the carcass. It is very economical yet effective in increasing safety and consumer confidence in pork. This is an example of a joint pork and beef checkoff-funded project, enabling both species to benefit while achieving the end result in a cost-effective manner.

A checkoff research project also helped spur on the pork industry's search for reduced fat processed products. In 1991, researchers at Auburn University unveiled a fresh pork sausage with 60 percent less fat and 46 percent less calories than conventional products. Since that time, many private companies have refined this process for their own products and introduced them into the marketplace. Because about 1 billion pounds of pork sausage are sold each year, developing a technology to reduce the fat while still maintaining taste and texture offers consumers a low fat alternative and supports the economic viability of the pork producer. Products using this technology can be found in supermarkets in at least 30 states.

How the product tastes has great impact on consumer satisfaction and repeat purchases. In 1989, we completed a checkoff research project to find the best end-point cooking temperature for pork. The results of extensive consumer taste panels and practical test kitchen applications found that 160 degrees F. was optimum for palatability and taste. Findings of this cookery research, conducted by the Meat Board Test Kitchens and the University of Missouri-Columbia, resulted in 160 degrees F. becoming the new recommendation of both the USDA and pork industry. It is an important message point in consumer education and food professional programs.

The most significant nutrition project ever conducted by the pork industry may well be familiar with some of you. In 1990, the Pork Market Basket Study was released at a press conference at the American Dietetic Association annual convention. This national study of fresh pork sold at retail, conducted by the University of Wisconsin-Madison, found that pork was 31 percent leaner after cooking and trimming of visible fat than reported in the most recent USDA data, published in 1983. This new study went on to provide the vast majority of information used to update USDA's official pork nutrient data. This new data is now published in Handbook 8-10.

The expansive impact of this new nutrient study is evident in almost every pork checkoff consumer marketing program. Consumer advertising, consumer affairs, healthcare professional, foodservice, retail and education programs have at some point within the past two years relied heavily upon the research results to market today's lean pork to consumers.

This is a perfect time to transition into the Pork Industry Group's consumer information area. Consumer information programs are funded by producers to reach consumers through thought leaders. Examples of these thought leaders are dietitians, physicians, health organizations and the media.

Even though many of us have never actually been counseled by a dietitian, this profession has affected our food choices. Dietitians develop menus at restaurants and healthcare institutions, are a common source of nutrition information for the media, are members of food companies and even reach us through research and teaching. An outreach program to dietitians funded by the checkoff has made a measurable impact. Most dietitians view pork as fitting in a healthy diet. In fact, a recent Gallup study found that 28% of dietitians -- more than 1 in 4 -- recommend pork more often now than they did two years ago. Specific programs that have made this happen include dietitian journal advertising, seminars, and a counseling kit called "A Change of Plate." The "31% Leaner" message is the cornerstone of our dietitian program.

When it comes to credible nutrition information, 83 percent of consumers say that physicians are the best source. Yet, a Pork Industry Group physician attitude study showed that only 29 percent of those surveyed perceived lean pork as being part of a heart-healthy diet. Checkoff funds have enabled the development of a physician continuing medical education program that aired on American Medical Television last fall. And, the Pork Industry Group is now undertaking the most extensive physician education program in the industry's history. This campaign to tell the new lean pork story involves medical journal advertising, direct mail, telemarketing

the new lean pork story involves medical journal advertising, direct mail, telemarketing and patient nutrition material distribution. A test pilot of this campaign in early 1992 showed that physician attitudes and behavior about the inclusion of pork in a heart-healthy diet increased 33 percent.

Alliances between healthcare organizations and the pork checkoff offer benefits to the organizations, pork producers and the consumer. For example, during the 1992 American Heart Association Food Fest, 1.7 million copies of a nutrition education brochure funded by the checkoff and developed by the Meat Board were distributed to consumers. This year, a message of balancing fitness and nutrition for a healthy lifestyle will be delivered to consumers through "HeartRide," a joint Meat Board and American Heart Association event. Other organizations that have been partners in consumer information with the pork checkoff include the American Dietetic Association, American Academy of Pediatrics, American Academy of Family Physicians, Society for Nutrition Education, and the American Medical Association.

Education is the third area that the Pork Industry Group conducts programs for the National Pork Board. This involves efforts to give an accurate, balanced message to future consumers about nutrition, pork and agriculture. Reach of just the teacher kits requested in 1992 is 2.5 million school students, not counting the kits still in use from previous years. These kits offer teachers timely, factual information that is relevant to an established curriculum area at no or very little cost, developed in a manner to assist in educating our youth. Recent research by the Meat Board shows that youth have many nutritional misperceptions about meat. We intend to improve

children's nutritional knowledge, including how to meet dietary guidelines as graphically depicted on the new USDA "Food Guide Pyramid." After the announcement of this new graphic last summer, we quickly developed an educational poster, which has been distributed to 54,000 teachers.

During 1993 and beyond, pork checkoff dollars will be devoted to carrying out the nation's new nutrition labeling guidelines for meat products. This offers the pork industry the opportunity to show consumers at the point of purchase how today's "31 percent Leaner" pork can fit within a heart-healthy, low-fat diet. Fresh meat labeling at retail is nothing new to the Pork Industry Group. In 1985, it helped fund "Meat Nutri-Facts," which earned the President's Circle Award from the American Dietetic Association.

I would like to conclude by sharing with you four points that the Pork Industry Group adheres to in its checkoff programs to benefit both the industry and consumers:

1. Checkoff research will play a vital role in establishing science-based information for use in consumer information and education programs. We have discussed examples previously, including the Pork Market Basket Study.
2. We will base programs on credible, scientific information, as is in the best interest of both the pork producer and the consumer.

3. We will make every effort to maximize the effectiveness of producer checkoff dollars and packer/processor voluntary investments. This includes partnering dollars with beef and lamb checkoff funds when it benefits the pork industry to do so.
4. We will coordinate marketing programs with other pork checkoff contractors, to increase synergy between areas of work, and avoid unproductive duplication.

Thank you for this opportunity to share with you the Pork Industry Group of the Meat Board's role as a contractor of the National Pork Board. The intent of this Act is to increase demand for pork. It is working -- benefitting consumers and pork producers -- without cost to the taxpayer.



**Missouri
Pork Producers
Association**

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February 18, 1993

The Honorable Harold L. Volkmer
Chairman
House Agriculture Livestock Subcommittee
Committee on Agriculture
U.S. House of Representatives
Room 1301, Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing on behalf of the Missouri Pork Producers Association to express our strong support of the Pork Promotion, Research and Consumer Information Act of 1985. This Pork Research and Promotion Program is entirely funded by pork producers at no cost to the Federal government. It functions as a vital marketing tool to develop and expand new markets and provides consumers a nutritious and wholesome product.

As you prepare for your Livestock Subcommittee hearing on producer-funded livestock research and promotion programs, you may be asking yourself if pork producers back home support the program and whether it is benefiting the pork industry? The answer to both of these questions is a resounding **yes**.

U.S. pork producers have continued to express their strong support for the program since its enactment in 1985. When asked in 1987 if the program should be continued, 79 per cent of all producers and importers urged its continuation. Since that time, producer polls have indicated that 80 per cent feel the program has benefited the pork industry. Then in 1990, due to the program's success and benefits, producers gave another round of support for the program by increasing producer contribution levels to 35 cents per \$100.00 value. This increase passed with an 86 per cent approval rating.

Mr. Chairman, this solid producer support reflects the enormous success this program has had on the U.S. pork industry. Our industry is experiencing unprecedented growth. 1992 saw more pork produced in the U. S. than ever before, all while most producers remained profitable. 1993 will be an even bigger year as it is predicted that approximately 17.8 billion pounds will be processed from 97 million hogs.



The Other White Meat



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The Honorable Harold L. Volkmer
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Missouri's pork producers remember your willingness to step forward and champion the Pork Act as part of the 1985 Farm Bill. We are greatly appreciative of you for taking that leadership role and for your many other efforts on behalf of pork producers.

Please call me at 314/696-3431 if I can be of any further assistance to you on this matter. I look forward to an extremely positive outcome from the pending hearing.

Sincerely,

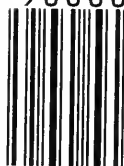
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